

ROYAL COMMISSION ON <sup>✓</sup>INDIAN FINANCE AND CURRENCY

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INTERIM REPORT

OF

THE COMMISSIONERS.

(Appendices to the Interim Report of the Commissioners, 4 Volumes, are printed separately.)

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*Presented to both Houses of Parliament by Command of His Majesty.*

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LONDON.

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T FISHER UNWIN, LONDON, W.C.

1913.

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**THE ROYAL COMMISSION.**

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GEORGE, R.I

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

Our Right Trusty and Well-beloved Counsellor Joseph Austen Chamberlain,

Our Right Trusty and Well-beloved Edmund Beckett, Baron Faber,

Our Right Trusty and Well-beloved Arthur, Baron Kilbracken, Knight Grand Cross of Our Most Honourable Order of the Bath, and

Our Trusty and Well-beloved —

Sir ROBERT CHALMERS, Knight Commander of Our Most Honourable Order of the Bath, Permanent Secretary to the Treasury,

Sir ERNEST CABLE, Knight, formerly President of the Bengal Chamber of Commerce,

Sir SHAPURJI BURJORJI BROACHA, Knight, formerly Sheriff of Bombay

Sir JAMES BEGBIE, Knight, Secretary and Treasurer of the Bank of Bombay

ROBERT WOODBURN GILLAN, Esquire, Companion of Our Most Exalted Order of the Star of India, Secretary to the Government of India in the Finance Department,

HENRY NEVILLE GLADSTONE, Esquire, and

JOHN MAYNARD KEYNES, Esquire, Fellow of King's College in Our University of Cambridge, and Lecturer in Economics,

Greeting!

Whereas We have deemed it expedient that a Commission should forthwith issue

To inquire into the location and management of the general balances of the Government of India, the sale in London of Council Bills and Transfers, the measures taken by the Indian Government and the Secretary of State for India in Council to maintain the exchange value of the rupee in pursuance of or supplementary to the recommendations of the Indian Currency Committee of 1898, more particularly with regard to the location, disposition, and employment of the Gold Standard and Paper Currency Reserves, and whether the existing practice in these matters is conducive to the interests of India, also to report as to the suitability of the financial organisation and procedure of the India Office, and to make recommendations

Now know ye, that We, reposing great trust and confidence in your knowledge and ability, have authorised and appointed, and do by these Presents authorise and appoint you, the said Joseph Austen Chamberlain (Chairman), Edmund Beckett, Baron Faber, Arthur, Baron Kilbracken, Sir Robert Chalmers, Sir Ernest Cable, Sir Shapurji Burjorji Broacha, Sir James Begbie, Robert Woodburn Gillan, Henry Neville Gladstone and John Maynard Keynes to be Our Commissioners for the purposes of the said enquiry

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

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

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

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

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

Given at Our Court of St James's, the seventeenth day of April,  
one thousand nine hundred and thirteen, in the third year of  
Our Reign

By His Majesty's Command,  
R McKENNA.

Indian Currency and Finance  
Royal Commission of Inquiry

## INTERIM REPORT.

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TO THE KING'S MOST EXCELLENT MAJESTY

MAY IT PLEASE YOUR MAJESTY,

WE, the Commissioners appointed to inquire into the location and management of the general balances of the Government of India, the sale in London of Council Bills and Transfers, the measures taken by the Indian Government and the Secretary of State for India in Council to maintain the exchange value of the rupee in pursuance of or supplementary to the recommendations of the Indian Currency Committee of 1898, more particularly with regard to the location, disposition, and employment of the Gold Standard and Paper Currency Reserves, and whether the existing practice in these matters is conducive to the interests of India, also to report as to the suitability of the financial organisation and procedure of the India Office, and to make recommendations, availing ourselves of Your Majesty's permission to report our proceedings from time to time, desire to submit to Your Majesty the minutes of the evidence which we have taken up to this date on the subject of our Inquiry

All of which we most humbly submit for Your Majesty's most gracious consideration

AUSTEN CHAMBERLAIN (*Chairman*).

FABER

KILBRACKEN

ROBERT CHALMERS

ERNEST CABLE

S. B. BROACHA

J. BEGBIE

R. W. GILLAN

J. M. KEYNES

H. N. GLADSTONE

BASIL P. BLACKETT,  
*Secretary.*

DATED THE 6TH DAY OF AUGUST, 1913.

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ROYAL COMMISSION ON INDIAN FINANCE AND CURRENCY.  
POONA.

MINUTES OF EVIDENCE

TAKEN BEFORE THE

ROYAL COMMISSION

ON

INDIAN FINANCE AND  
CURRENCY.

VOLUME I.

2

Presented to both Houses of Parliament by Command of His Majesty.



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**MINUTES OF EVIDENCE**  
TAKEN BEFORE THE  
**ROYAL COMMISSION**  
ON  
**INDIAN FINANCE AND CURRENCY.**

**FIRST DAY.**

At the India Office, Whitehall, S.W.

Tuesday, 27th May 1913.

PRESENT

THE RIGHT HON AUSTEN CHAMBERLAIN, M P (*Chairman*)

Lord FABER  
Lord KILBRACKEN, G C B  
Sir ROBERT CHALMERS, K.C.B.  
Sir ERNEST CABLE  
Sir SHAPURJI BURJORJI BROACHA

Sir JAMES BEGGIE  
Mr ROBERT WOODBURN GILLAN, C S I  
Mr HENRY NEVILLE GLADSTONE  
Mr JOHN MAYNARD KEYNES  
Mr BASIL P BLACKETT (*Secretary*)

Mr LIONEL ABRAHAMS, C B, called and examined

1 (*Chairman*) You are Assistant Under-Secretary of State for India?—Yes

2 Will you please tell me what your official experience has been?—I entered the India Office in 1893, and joined the Financial Department in 1894. In 1898 to 1899 I was the Assistant Secretary of the Herschell Committee, I mention that because that was when I became specially connected with the currency question. Then in 1902 I was made Financial Secretary, and held that post until 1911, in which period, of course, I had a great deal to do with these financial and currency questions. In 1911 I was moved to my present post, in which in a somewhat undefined way I lend a hand in dealing with financial questions, so that my financial experience goes from 1894 until now in various capacities.

3 I understand that you are prepared to give evidence as to the practice and policy in financial matters of the India Office?—Yes.

4. And especially under the first three heads of the Commission's Reference, that is to say, the location and management of the general balances of the Government of India, the sale of exchange bills and transfers, and the methods adopted since 1899 for the maintenance of the exchange value of the rupee, with particular reference to the gold standard and paper currency reserves?—I have handed in, and no doubt you have read, a note on the balances, which also deals with the sale of council bills and transfers, and then I have handed in one about the gold standard reserve. I was not proposing to deal with the paper currency reserve, because Mr Newmarch was going to hand a note on that subject. I have put in another of no very great importance about the proposals for the establishment of a gold mint in India. I dare say the Secretary has circulated that to you. It occurred to me also that if the Commission desired it I might perhaps go through the history of the proposals for a central bank. One's India Office experience rather helps one to see what are the conditions which would apparently have to be satisfied if such a bank was to be well-established. Of course, if the Commission

asked for anything of that sort I have no doubt that Lord Crewe would authorise me to put in something.

5 Thank you. I think we will begin, at any rate, with the questions concerning the general balances of the Government of India and the sale of council bills and transfers. I have before me copies of the two memoranda (*see* Appendices I and II) which you supplied dealing with those subjects, the first containing the explanatory memoranda, and the second containing copies of extracts, &c, from papers referred to in those memoranda and statements and tables illustrative of them. Those memoranda may be considered as part of your evidence?—Yes. I gave the Secretary some slight corrections of those memoranda which I dare say he has given to members.

6 They shall be embodied in it?—They are very trivial.

7 In Statement B (Appendix II, pp 74-5), you give figures showing the distribution between India and England of the total balances on March 31st in each year from 1893 to 1913, together with the estimated figures for March 31st, 1914, that is so, is it not?—Yes, that is so.

8 And in Statement A (Appendix II, pp 67-73), you supply figures showing the receipts and disbursements in India and England for each year from 1907-8 onwards under certain heads, and so you work up from the closing balance at the end of 1906-7 to the estimated closing balance at the end of 1913-4?—Yes, that is so.

9 Will you go through the various heads of receipts and disbursements so that the Commission may get a clear understanding of the composition of the balances? Take, first, the receipts. The first head is "Revenue." That, I think, is simple. The second is "Capital received from Railway Companies." Will you explain to us what that is?—Yes. The greater part of the Indian railway system is worked by guaranteed companies, companies which have the interest on their capital guaranteed by the Secretary of State; and as part of that system they pay in all their receipts to the Government, whether for capital or for revenue, and they draw from the Government all that they require, whether for capital expenditure or for working expenses. This item No. 2

27 May 1913]

Mr LIONEL ABRAHAMS, C.B.

[Continued]

upon which you have questioned me is one of the items which come into the Government account in consequence of that system, that is to say, the railway companies from time to time would make an issue, say, of guaranteed debenture stock or something of that sort, such as, I dare say, you have noticed has recently been made, and then they pay it in to the Secretary of State, and in a very similar way payments of that kind are made into Government treasuries in India. I mention the English transactions because they are more familiar to me, but they are all of the same kind.

10 That is capital raised for and held for the Indian railway companies until they require it?—What usually happens is a little different. An Indian railway company will go on year by year spending money which it has not raised. I mean the Secretary of State will advance it, and will get interest or a share of the profits in respect of his advances. Then every now and then he will say to a railway company, "I want you to pay me back two million pounds of my advances." You see, that would be the alternative to issuing a loan for two million pounds.

11 Then do I understand that at that point two million pounds of fresh capital is raised in the market for the company?—It is raised by the company.

12 And paid to the Indian Government?—Yes, to the Secretary of State.

13 Then the third head of receipts is, "Loans issued for the requirements of the current year"?—3 and 3a in a sense go together. The Secretary of State has continually to issue loans, not, as you will readily understand, to fill up deficits in his revenue accounts, but in order to meet the capital expenditure which he is continually incurring. Very occasionally he has to borrow in order to fill up a revenue deficit, but that is very exceptional indeed. These loans which are set down here are loans practically in all cases for capital purposes. You will notice that in preparing the statement I have divided the loans into 3 and 3a, because in some cases the Secretary of State, say in February or March of a particular year, borrows in advance for the requirements of the following year. He would be influenced by his expectation of the state of the market and so on.

14 I think that answers the question I was going to ask you as to what rule is followed in fixing the total amount to be raised by loan in any one year?—I think one would hardly say that it was a rule. I would rather put it in this way. At a suitable time each year, about the autumn or the winter, the Indian Government, like the British Government, begins to prepare its budget. Of course, the expected revenue receipts and revenue expenditure follow to a great extent on facts which are not within the control of the Government, except, of course, when taxation is to be altered, but it also has—and thus, perhaps, is a little unfamiliar to those who are only accustomed to British Government finance—to adopt a railway programme, that is, to decide that so much, say 10 millions, 12 millions, 13 millions, or whatever it may be, shall be devoted to capital expenditure on railways and so much to capital expenditure on irrigation works. Then one works out a budget, not merely a revenue budget, but what you may call a ways and means budget, in which you reckon that of this total capital expenditure so much can be met, say, from savings bank receipts, so much can be met from accumulated balances, and so on. Then, having made your calculations as best you can—and naturally in conditions of some uncertainty, because you do not know what next year is going to bring forth—you then say, or, rather, the Secretary of State then says, "In order to make both ends meet and to end up with a suitable closing balance we must borrow so much." It is a matter, as one may say, of general common sense to decide how to borrow it, except that I might mention this, which I think is important in some ways, that the general principle recognised is that the Government of India borrow as much as they can in India for the purpose of this capital expenditure, and then the balance, great or small, has to be found by the Secretary of State in England. I think as you go

on you will see that this fact that the Secretary of State is in a sense the residuary legatee in this matter is a very important fact.

15 I think I understand why, but I should prefer to ask you. Why do the Government of India make it a practice to borrow as much as they can in India?—In former years, I think, Secretaries of State held the view much more than they do now that there were two advantages. First of all, everyone is familiar with the general political advantage of a country holding its own debt, and not having too much external debt. Then, from the seventies to the nineties, the Indian Government authorities were afraid, and properly afraid, of doing anything that would add to the burden of the home remittances. You see, if you go on borrowing several millions a year in England it means that you have to remit so much more from India to England to pay the interest. The exchange question in the period I mentioned was a very serious question, and the India Office tried to reduce as much as possible the burden of those home remittances. Now the same principle of the Government of India borrowing as much as they can in India is still held to, but I should say for entirely different reasons, namely, that, as is a matter of notoriety, year by year it has in recent times been becoming more difficult to issue loans on favourable terms in England, and that, I think, is the main justification at present, although, of course, the old reasons have some validity, not so much as they had, I should say.

16 When you say that the Government of India would borrow as much as they could in India for those reasons, I presume that means at the same rate of interest, or substantially on the same terms?—Yes. One often has to use those phrases. I suppose that if they paid a very much higher rate of interest they could borrow a great deal more, but the governing consideration, I take it, in all these matters is that you ought not to borrow in such a way as violently and suddenly to depreciate the position of your stock.

17 To go back to the receipts again, the fourth item is "Unfunded debt." Have you anything to say about that?—All I have to say is that unless one is accustomed to Indian accounts one would not understand it. It simply means the savings bank receipts. It does not mean what you would mean in the Treasury, short-dated bills, or anything of that sort. It means savings bank balances, and a few deposits of funds which, as it were, bank with the Secretary of State.

18 Does it mean the total of those funds for the moment, or the receipts in the year under review?—The net receipts in the year.

19 Then "Miscellaneous remittances" is the next item?—There is No 5, "Deposits and advances."

20 Yes, will you tell us what the deposits and advances are?—I thought you would probably ask about that, and therefore I noted down some items which go to make it up. In the business of a government there are a great many payments and receipts which are neither properly revenue nor properly capital, and you have to have some miscellaneous sections of your accounts in which to deal with them. I have copied out from one particular year the various items which make up "Deposits and advances." Would you like me to read the chief ones?

21 Just read the principal items to give us a rough idea of what it means?—In India by far the biggest is the departmental and judicial deposits. There are large receipts and large payments. They fairly well balance one another, but the total on both sides is very large. Then the transactions, with which I think you will become more familiar later, between the Government Treasuries and the Paper Currency Department are brought to account in this particular section. Then there is a practice in India by which the Government makes advances on a large scale to native states, municipalities, cultivators and so on and all that comes in this section. Of course, on the one side you have the payments, and on the other side you have the repayments. Then, also, the Government acts as the banker of a great many district boards. It receives their money and pays out money to them, district boards are something like county councils, it is a rough analogy. That is the kind of item which is



-27 May 1918]

- Mr LIONEL ABRAHAMS, C B

[Continued

entered here, and perhaps for your purpose what I have said is enough, but I could, if you cared, submit a fuller statement

22 I think that is sufficient for our purpose. Then No 6 is "Miscellaneous Remittances." I only want a very short indication of what it is?—There are, for example, money order transactions which naturally come to a very large sum, both in India and international money orders. Then when we buy silver for the Government of India and send it out to India the cost is entered under "Remittances."

23 The last heading is "Council bills and transfers." I think we will leave that for the moment. Now on the expenditure side the item "Expenditure chargeable to revenues," I think, needs no explanation?—No

24 I observe that, roughly twenty millions has to be met in England. Is that a fairly normal sum?—I should say that it is gradually increasing. You see, in each year we should ordinarily issue a loan for several millions, and there is a gradual increase in interest charges on that account. Occasionally one effects an economy in some head of the administration, but it does not count very much against these large increases of interest. It may interest you to know that about 30 years hence there will be a very great decrease, because a great number of terminable annuities will come to an end.

25 In the meantime there is a tendency to a steady but not very large increase in any one year?—That is so.

26 Then as regards the remaining heads, have you anything to say about them—"Capital outlay," for instance?—No. You will notice, as you go through the statements, that the budget estimate of capital outlay is not worked up to as a rule, and that is a cause of a good many things upon which, I imagine, you will be questioning me. I now draw your attention to it merely. Then also you will notice that the figures about "Discharge of debt" in certain years are very heavy. Very large amounts of debt have been discharged, but I do not think there is anything noteworthy in the other items.

27, Is the sum allocated to the repayment of a debt a fixed charge?—No. There is a peculiar system with a rather long history attached to it. There is an arrangement under which ordinarily about half a million pounds taken from revenue are used, not to repay debt, because, of course, any borrowing government does not ordinarily do well to repay debt—that question has been discussed from the time of Mr Pitt to the present day—but there is an arrangement under which half a million pounds are used from revenue for the avoidance of debt, that is to say, spent on the railways instead of money being provided by the issue of loans. When we discharge debt it is usually because the debt is of a special nature which it is desirable to discharge. Except in small amounts, and under statutory provision, we should not pay off our permanent debt at all, but we have, from time to time, very large amounts of temporary debt, India bills, corresponding to Treasury bills, and so on, and the desirability of paying off those lest they mature at a very inconvenient moment is, of course, clear. That is the sort of debt that we have been paying off for some years, and which we have almost cleared out of existence.

28 If there is an unexpected surplus of revenue at the end of the year, it does not automatically go to the payment of debt as it does in this country?—No, that is a very important point, and I am glad you put the question to me at this early stage. I mentioned the discussions which began the 18th century and have gone on intermittently ever since, as to whether a government which borrows ought at the same time to pay off debt. The practice that we have followed, and I may say there can be little doubt that it is the right practice, is that except when you are dealing with special kinds of debt such as I have mentioned you should use your surplus primarily to reduce the amount of new debt which you incur, not to incur a larger amount of new debt and then use your surplus to pay off so much existing debt.

29 I think that examination of the accounts shows us how the balances are arrived at. Now we come to the question of their location. The first part of your memorandum shows the distribution of the balances between England and India on March 31, 1913, and Statement B gives the distribution for each year after 1907, I think?—Statement B in Appendix II, pp 74-5 gives it for a longer period, it begins earlier, if you will notice, in your copy it is 1893.

30 It is from 1893 onwards?—Yes.

31 I understand that the balances in India are divided between the district treasuries, branches of the Presidency banks, the head offices of those banks, and reserve treasuries?—Yes.

32 Will you tell me briefly what is the reason for this arrangement?—Yes. The particulars, I think, are given in the second collection of papers.

33 It is Statement C in Appendix II on page 76?

—Yes. I think perhaps the most natural order is to begin with the district treasuries and the branches of Presidency banks, which are in column 3. I should like to say here that I do not speak from first hand knowledge, and I dare say that Mr Gillan will be able to supplement a good deal of what I say if you ask him. The revenue in India is collected to a very great extent up country, and it comes in the first place to a district treasury, which would be under the management of a government officer. Then in that district treasury they would naturally keep such sums as would be required, or are estimated to be required, to meet the disbursements at that place, because India being a big undeveloped country, it is necessary in country districts to keep your money where you want it. I mean you could not rely on being able to get it from other places just at the right moment. That explains why some money is kept in district treasuries, and in some districts there are branches of the Presidency banks, in some there are not. I think that the practice of the Government of India is that wherever there is a branch of a Presidency bank it is used as a district treasury. I am sure that I am fairly right about that, but I may not be absolutely right, and Sir James Baghie and Mr Gillan can say whether it is so or not. Then the money which is not required to be kept in the districts would naturally go to the Presidency towns, to Calcutta, Madras, or Bombay, but I suppose a good deal would go to other towns of first-class commercial importance, because there the government payments would be very large. There is a very long and interesting history of the location of such government money as is held at Presidency towns. For some years all such money was put at the head offices of the various Presidency banks, but in 1874 you will have seen from what I put in my note that there was an incident, not the first one of its kind, which made a very great impression on the Government of India in those days. Certain money which the Government of India wished to withdraw from one of the Presidency banks was not placed at their disposal quite as easily as a government ordinarily would expect, or as a customer would ordinarily expect from his bankers. I may say that in 1898, when I was at the meetings of the Fowler Committee, I was quite astonished and impressed to see what a deep mark that incident had left on the mind of Lord Northbrook, who was then Viceroy. He gave evidence on the subject, and it was a thing that had evidently left a lifelong mark on his mind. In order to minimise the risk of a recurrence of that trouble about getting government money from the bank, the Government of India proposed, as you will see from the correspondence which I put in, to establish reserve treasuries at which certain sums would be held locked up. You will notice that the Secretary of State did not welcome that idea very much, he pointed out certain disadvantages, but apparently the Government of India, having very large powers in that matter, decided to take action without paying too much regard to the Secretary of State's views, and you will see in the papers which I have put in that in 1876 they set up a reserve treasury at Calcutta, and in later years—that is all given in the papers—they set up similar reserve treasuries in Madras and Bombay.

27 May 1913]

Mr LIONEL ABRAMSON, C B

[Continued.]

34 That was in consequence of the difficulty which they had in withdrawing at short notice then deposit in 1863 from the Bank of Bengal?—No, I have mentioned here that there was a difficulty of that sort in 1863, but the immediate cause of the setting up of these reserve treasuries was a similar incident connected with the Bank of Bombay in 1874. No doubt the recollection of 1863 had a great deal of influence on the action of 1876.

35 In 1874 the Bank of Bombay objected to the withdrawal of a sum of 350,000?—Yes.

36 Out of the total balance then to the credit of the Government of India of one million pounds?—Yes.

37 And the withdrawal was postponed in consequence of that protest?—Yes. I cannot say off-hand—I once knew, but I have forgotten—for how long it was postponed I have not noted it down in my memorandum, but one can easily find it if it is desired.

38 Has the Government any fixed agreement with the Presidency banks?—Yes. They are very long legal documents, and I thought it might do if I gave a summary of what was really important. Shall I read what I put in my memorandum (Appendix I, paragraph 8)? “The agreements provide that the banks are to transact general business for the Government at their head offices and certain branches, that they are to receive specified remuneration, that the Government is not bound to retain at the banks any particular sum, but that if its balance at the head office of any of the three banks falls on any day below a specified minimum it has to pay to the bank interest”—and then I quote the words from the agreement—“at the lowest rate chargeable on such day by the said bank to the public for loans recoverable on demand.” “The remuneration of the three banks and the minimum balances that they are to hold for the Government at their head office”—“or head offices” I should have said—“without charging interest are as follows.” The Bank of Bengal has a remuneration of 2,900 per annum, and the balance that it holds without charging interest is 233,000. You will, of course, realise that these rather odd figures are due to the fact that figures which are round sums in rupee currency become rather angular sums in British currency. Then the corresponding figures for the banks of Madras and Bombay are—Madras, remuneration 800, balance to be held without charging interest 120,000, and the Bank of Bombay, remuneration 800, and balance to be held without charging interest, 133,000, but then, as I mention in my note (Appendix I, paragraph 9), and perhaps I had better read that as it is important, “In actual practice the Government of India is much more liberal to the banks than is provided for in the agreements. They usually keep at the head offices of the three banks the following amounts—“Bank of Bengal, 467,000 to 533,000,” that is 70 to 80 lakhs of rupees, “Bank of Madras, a little over 133,000,” that is a little over 20 lakhs of rupees, and “Bank of Bombay, 267,000 to 333,000,” that is from 40 to 50 lakhs of rupees. Then, “On the notation of a loan and in special cases the amounts are increased,” but that is a matter of practice, and perhaps I am going a little beyond your question about the agreements pure and simple.

39 Do the banks pay interest to the Government of India if the balance rises above any figure?—No. On the other hand, to be fair to the banks, I ought to say that I think the Government of India is rather careful not to let the balance rise to an excessive figure. Then, of course, we come on later to this question of special loans granted on special application. When such loans as that are granted interest is paid.

40 I was talking merely of current balances for the moment?—Quite so.

41 Are there any other banks besides the Presidency banks and their branches with which they keep balances?—Not in India. You have heard in Parliament that we have deposited temporarily certain balances at banks in England, but in India I do not think I have ever heard of any government balance

being in any bank other than a Presidency bank. There may have been trifling instances, that Mr Gillan, of course, would know.

42 Do you use any other banks in India for transferring funds in India?—I do not think so. To the best of my belief the Government of India has no relation with any banks other than the Presidency banks, except, of course, that when an exchange bank presents a bill of exchange which the Secretary of State has sold, then it is the business of the Government of India to meet it, but subject to that I do not think the Government of India has any relations with any other banks.

43 I think it would be useful to the Commission if we could have a summary of the history of the relation of the Government of India with the Presidency banks?—I have noted down what I think are the most important facts. I would like to draw your attention to a book by Mr Brunyate\*, I do not know whether you have seen it. It was written under great pressure of time for official purposes, but I think practically all that is important in the history of the Presidency banks will be found very lucidly and fully set forth in this book, so that if you ever wish to go into it fully I think you could not do better than read Mr Brunyate's book. I might perhaps mention very briefly the few facts which seem to me of importance and which I happen to know on the subject. Shall I just mention a few?

44 Yes, if you please?—The Government of India first put balances with the Presidency banks in 1862. I think that is the first record of that being done. At that time they had rather a peculiar arrangement. They had certain shares, not a very large amount of shares, in the Bank of Bengal and similarly in the Bank of Bombay and the Bank of Madras and they had government directors, in the Bank of Bengal there were three government directors and six ordinary directors, and I think that was also the case in the Bank of Bombay, so that on the one hand they would have a great share in managing the bank, and also they were very important customers and depositors of the bank. I do not know whether I am giving you too much detail but I will try not to make it too extensive.

45 I want as brief a summary as you can make clear?—In 1862, when they began to deposit with the banks they had an arrangement which is set forth in Mr Brunyate's book at page 83, of which it seems to me the important point is that though all the money of the Government in the Presidency town was lodged with the bank, the bank could only handle as banking money 70 lakhs, a little over 400,000 at the present rates, all the rest of it was locked up by the bank, or if we preferred it, we could invest it in government securities. It is a somewhat peculiar arrangement, but still that is what the arrangement was. That arrangement went on only for quite a short time, until 1866, I think, and then the agreements were revised and practically—I will leave out some technicalities and some obscurities—what happened was that from 1866 to 1876 the Presidency bank handled all the government money which was in the Presidency town. The district treasuries, of course, held a certain amount of money, but the large sums that were in Calcutta went to the Bank of Bengal to be dealt with as they wished, and those in Bombay to the Bank of Bombay, and so on. After ten years of that great freedom the Presidency banks found that the great blow, as probably they regarded it, fell upon them of the establishment of these reserve treasuries which I mentioned, which took away a very appreciable sum of money from them, and naturally the policy of the reserve treasuries has been under discussion more or less from the day when they were established until the present day. The only other point I ought to mention is that in the year 1876, when a new Act regulating the Presidency banks was passed, one of its provisions was to abolish the three government directors whom I mentioned previously,

\* An account of the Presidency Banks, published by the Government Press, Calcutta, 1900.

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and there were also a number of important restrictions introduced, but that does not arise out of your present question, you might possibly ask me about that later.

46 I will come back to it if we want it. Since the establishment of the reserve treasuries there has been substantially no change in the Government practice?—Quite so. There has, as a matter of fact, been a series of alterations of the Presidency Banks Act so as to give greater freedom to the Presidency banks, but I cannot recollect that the relations between the Government and the banks has been altered to any material extent, except, of course, that there has been a little more open recognition, I think, of the desirability of the Government lending money on interest to the Presidency banks at times of pressure.

47 I was coming to that. Would you tell us about that, please, how it arises, and, as briefly as you can, what is done?—I think you will notice at the beginning of Appendix II, pp 32-5—one does not like to go back too much to ancient history, but I think it is worth doing so in this case—there is a despatch dated 6th May 1875 from Lord Salisbury, who was then Secretary of State, in which he generally recognised that the Government of India had considerable powers of handling their balances in India as they wished—putting them with banks, or lending them. He recognised that he ought not to control that particular business very much, and the Government of India, I believe, from time to time, I cannot say how frequently, did grant loans on interest to Presidency banks, but our India Office records are very incomplete about that matter until a discussion took place which is summed up in a despatch to the Government of India dated 4th May 1899 which will be found in Appendix II, pp 62-4. You will see that the Government of India in 1899 submitted proposals for lending money temporarily and at interest to the Presidency banks, and the Secretary of State said that *prima facie* it was not his concern, that they could do as they wished, but then he put in the remark which I imagine had a great deal of influence on the Government of India, that ordinarily he thought that such loans should be at bank rate, not below bank rate, as the Government of India had wished. I have been told by people with whom I have discussed it that that is a very important matter, because loans would have been sought more eagerly by the Presidency banks if they had been granted below bank rate and there had been an opportunity of profit. I cannot say whether that is so or not, because in one rather important passage quoted in paragraph 15 of Appendix I you will notice on page 4 that the Bank of Bengal say "The suggestion which my directors would make is that when the bank rate rises to a height that indicates undue pressure the Presidency banks may be able to rely on procuring loans through the Comptroller-General either from the reserve treasury, or failing this, from the paper currency reserve, at the current rates for demand loans on government paper, rising and falling there-with." You will notice the phrase "at the current rates" not "below the current rates." Then the Bank of Bengal, feeling no doubt that this was a rather generous offer, made some remarks about the motives which led them to submit it. They say "In submitting this suggestion my directors desire me to state that it is made with the sole object of ensuring a steady supply of loanable capital at moderate rates. These loans will yield profit to the Government and benefit all who are interested in a steady money market, while the bank would undertake without profit to itself the risk and labour involved," so I do not know really whether it is a question of the rate of interest which has caused these loans to be taken so seldom in recent years or whether other conditions have stood in the way. That is a subject upon which I have no doubt the Commission will get evidence from people better qualified to speak than myself, but I think both views are sustainable.

48 Is it in your opinion desirable to encourage these loans?—Of course, that raises an enormously difficult question. I think that when the money market upon which trade depends is suffering from

extreme stringency which can be alleviated by the very simple process of unlocking a government treasury and lending some money on good security and with a certainty of repayment, it is, *prima facie*, a bad thing not to apply that medicine to the temporary complaint, but at the same time, of course, there are questions whether the banks are strong enough to justify a very large increase in the amount of government money placed with them—I do not attach very much importance to that—and then there is the much larger question how far a great money market like the Indian money market should rely on government resources as distinct from what you may sum up as its own resources. My own feeling is that it would be well that with discretion the Government should apply a dose of this remedy occasionally, but there is very much to be said on both sides.

49 That has been the view taken by the Secretary of State?—Yes, I think that generally the Secretary of State has not wished to be restrictive, though I wish to be quite fair, and I think that one might say that the effect of his *obiter dictum* about the rate of interest was possibly restrictive to a greater extent than he intended or would have desired.

50 Now, if we turn to the balances in London, should I be right in saying that the main consideration which guides you in regard to those balances is the amount of the charges which you have to meet in London?—Yes. Of course, the balances exist merely in order to meet the Secretary of State's requirements, and perhaps I might add that he often does have balances which are intended to meet, or will be used in due course to meet, future requirements and not immediate requirements. In the paper which I have put in I have endeavoured to explain and justify the policy and practice which led to that state of things, but, as you say, the object of the balances is that they may be spent in London on Indian purposes.

51 Where are the balances kept in London?—There is an arrangement that not less than half a million pounds shall be kept at the Bank of England. It is very curious that the written basis of that arrangement is not discoverable, though it has been recognised orally before commissions and select committees for very many years. Practically the rest of the balances are on loan, usually to approved borrowers against security.

52 If your balances become abnormally high do you ever go outside those two places of deposit?—Yes, as you know, we have deposited large amounts with joint stock banks. That was the case from 1909 to 1912, but in 1912 the balances sank to such a level that the broker who is our agent for lending to approved borrowers found that he could place all the money, and there was no occasion to continue the rather unusual practice of depositing with joint stock banks.

53 I suppose you keep a small balance at the India Office itself?—At the India Office I believe we start each morning with about 2,000l, and in addition to that what I said in reply to your question was not absolutely exhaustive, because there are certain sub-accountants, as they are called in Treasury language, who have some money. I think that the War Office, who are always spending money for us, have an imprest of 40,000l, or something of that sort, and there are certain small sums placed out with people who spend it on our behalf, but all that is very trivial.

54 That practically exhausts the location of the balances in London?—Yes.

55 As regards the amount of those balances you have put in some figures, I think it is Statement B in Appendix II (pp 74-5)?—Yes.

56 From those figures it would appear that the total balances have been very high in recent years?—Yes.

57 Will you give me, in general terms, the reasons for that?—Yes. If one wanted it in detail, it would be necessary to go through all those figures, or some of those figures in Statement A in Appendix II (pp 67-73), and compare the Budget estimate and the actual

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transactions in each year from 1907-8, but that would, perhaps, take time. I think in general terms this would be a fair summary of the reason of the high balances. In the first place, the revenue receipts, or rather the excess of revenue over expenditure, that is to say, the revenue surplus, has been in the actuals far higher—higher, you may say, to an extraordinary degree—than the estimated surplus. I should mention here that that fact is sometimes overlooked, because when the Government of India has had a cash surplus of, say, six million pounds or so, it sometimes makes grants of very large sums to provincial governments, and then the declared surplus as shown in the financial statement is reduced by the amounts of such grants, but it is very important, if this is not too technical a point to mention, to notice that these reductions in the declared surpluses do not reduce the actual cash balance which is held. I do not know whether I have been obscure there, but it is very important to bear in mind the difference between the cash surplus and the declared surplus.

58 No, I do not follow. The Government of India, I understand, finds itself with an unexpected surplus which has swollen its balance?—Yes.

59 Having money available, it then takes the opportunity of making a grant which it wishes to make to some provincial government?—Yes, that is so.

60 But you say that the balance is not reduced by the making of the grant?—Yes.

61 Why?—That is so important that I venture to put it at this stage. It is no more reduced, if I may put it in this way, than a banker's balance is reduced if a customer A who banks with him pays a cheque to the account of customer B who banks with him. All that the banker has to do is a book-keeping transaction. Supposing the Government of India has received in cash six million pounds more than it has expected, and then it appears that, say, in the Province of Assam more money is wanted for school buildings which will take several years to complete, it makes a book-keeping entry to the effect that it has allocated so much of its extra money to the Province of Assam, and year by year, perhaps over a very long period, that money is actually drawn out by the Province and spent, but the reduction of the declared and official surplus takes place at once, while the cash reduction takes place very slowly and over a very long period of time, so that the figures of the official surplus or the declared surplus very often give you an extremely incomplete idea of the cash position.

62 A misleading idea, in fact. As I understand your meaning, it is that the Government of India has placed to the credit of the provincial government a certain portion of the balance standing to its own credit, it has given to the provincial government the right to draw that money when that government pleases?—That is so.

63 But it continues to show its own balance as if that money were its own, and not, as it has become, the money of the provincial government?—May I correct you on one point?

64 Please do?—You say it continues to show it in its own balance. It could not do otherwise. I mean the money is in its own balance. It has locked up partly, in district treasuries, and partly in head offices of Presidency banks, and so on, large sums of money against which it has certain liabilities, and in the case that you were discussing what it had done by making a provincial grant was to create an extra liability to be met out of its balances, but creating an extra liability to be met out of your balances does not, *ipso facto*, reduce your balances, and I do not think the Government of India could do otherwise than it actually does.

65 But ought you not to do one of two things, either to transfer that sum to a separate suspense account at once, or else in your balance sheet to show the obligation against the money which you hold?—We do that. I mean if you read those painfully voluminous documents which we publish every year, the Indian Financial Statement, and so on you will find all that information is given, but the point that I wish to mention is this, and I mention it because I

think that by bringing it out here it may lessen some misunderstanding. A person who is an expert in Indian financial practice and book-keeping would, of course, at once understand that a very large increase in the cash surplus was compatible with a very small increase in the declared surplus in any particular year, because the declared surplus would be, if I may put it very briefly, the cash surplus after allowing for the new liability which has been created.

66 (Sir Shapurji Broacha) The balance of the revenue has been accumulating in India in the hands of the Government of India until the next budget is out, and sums allocated to the provincial governments and other objects?—Yes.

67 Then how does that balance become transferred to England, I suppose by the over-sales of council drafts, because before the allocation is made a good deal of the balance is here?

68 (Chairman) I think I must interrupt, because I think we are getting on to rather a different point from what we were on. (To the witness) May I put my question to you differently? If I understand rightly what you have said now, it is that the amount of the actual unallocated surplus is reduced by these grants to provincial governments, which are in effect power to draw?—Yes.

69 But the actual cash is not reduced, because the power to draw is not immediately exercised?—I could not possibly better that. That is exactly the fact, and I drew your attention to it merely because anyone looking at the figures of the rather moderate surpluses which are declared by the Government of India might be astonished to find that there are such very big cash surpluses and cash balances. Now I think from what you have said it is clear that there is no mystery about that.

70 That is one reason, I understand you to say, for the large balances there have been in recent years?—It is one and the most important reason. May I, before going on from that, draw your attention to one statement, I think it is Statement E in Appendix II?

71 That is the statement headed "Net revenue and expenditure of the Government of India (excluding provincial adjustments)" on page 81?—Yes. You will see why I put in the title of that statement, "Excluding provincial adjustments", it is to bring out the fact that you were just mentioning. You will see in 1909-10 there was nothing very extraordinary, I mean that there was an excess of a million and a half in the surplus. Then you get to 1910-1, in which there was an excess of six million pounds odd—a little over six million pounds in the surplus, in 1911-2 you get 5,800,000, and in 1912-3 you get, roughly, seven and a half million pounds excess of the realised surplus over the budget surplus. In the next column you will notice that I have added up the excesses of the four years mentioned, and you will see that they have amounted to 20 million pounds sterling. When you have a divergence between the budget estimate and the actual results of that magnitude, I think you will see that it is a little difficult to keep your balance at any particular sum which you have set before yourself as the ideal sum for your balance. Before passing from the revenue account I should like to say that to a great extent the divergencies have been due to the position of opium. Do you care to go into any details of that sort?

72 No, if you will tell me very briefly this. Are those disturbances which are likely to recur or are they due to special circumstances?—In the future?

73 Are they likely to recur in the future?—No. I am afraid, as far as one can gather, that the opium trade between India and China is quite dead. Of course, that must not be taken as a statement of policy, but as far as I, as an outsider in the matter can judge—

74 As a financial estimate?—As a financial estimate, yes.

75 Then you attribute the high balances in these recent years in part to these unexpected surpluses, or largely to these unexpected surpluses?—Yes.

76 And the surpluses themselves largely to the peculiar circumstances connected with the opium trade in those years?—Yes. That is the first head of

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my reply to your question. Then if you care to look through the figures, you will notice that in some years the whole expenditure on railways was very much less than had been provided for. Although I do not want to ask you to linger over details, I would just draw your attention to the year 1909-10, for example, in Statement A in Appendix II on page 69. You will notice that the railway and irrigation authorities underspent their grants in 1909-10 roughly by a million and a half, if you look under head 9. Then if you turn to the corresponding figure in 1910-1 over on the next page you will see something still more striking, you will see No 9 "Capital outlay on railways and irrigation works," and if you look at the last figures in the column you will see the total decrease of actuals as compared with budget loss to the remarkable figure of four million pounds. Those failures to spend the amount which is provided for capital expenditure add to the difficulty of keeping one's balance at exactly any figure that one had aimed at, more especially because the probability of their occurring is only known either to the Government of India in India or to the Secretary of State here quite a short time before the end of the year. From your Treasury experience I am sure you will understand that when a spending department fails to spend, it probably does not find out that it is going to fail to spend until quite late on in the financial year. That, I think, is the next most important cause after the revenue surpluses. Then there are certain, I think accidental, facts. During a certain period, which is included within the last five years, there were some windfalls mainly in this very large opium revenue, and it was decided, and I think very wisely decided, to hold them up in order that from them the Secretary of State might meet certain very heavy capital liabilities which he had to meet at specified times, but not immediately. I think perhaps it is worth while looking at despatch dated 23rd December 1910 from Secretary of State for India to Government of India, No 147, in Appendix II on pp 65-6. The Secretary of State there sets forth this very formidable list of maturing obligations which he had to meet, amounting in all, as you will see, to 13,942,500 in a short number of years, and then he explains that certain money which he has decided to set apart for the reduction of debt shall be applied towards meeting these particular obligations, but I think you will see there are good reasons for beginning the expenditure of that money in the year 1912-3 though the despatch was written in 1910. The holding up of that money for that period naturally made the balances rather high, I mean it was a contributory cause to an increase of balances.

77 Generally speaking, your evidence comes to this, that these balances were abnormally high in part owing to certain proposals for reducing debt—paying off debt—and mainly owing to accidental causes which could not have been foreseen?—I think that is so, yes—well, causes which I should say were not foreseen. Of course, it is very undesirable in a matter of this kind to distinguish between the Secretary of State and the Government of India. I mean in a sense they are one, but perhaps it would prevent or minimise misunderstanding if I explained that when the Secretary of State forms his budget for the year he relies entirely on the Government of India for an estimate of revenue. If the Government of India says "We estimate the opium revenue at so much," the Secretary of State does not question it. I think you will probably agree that he is wise in not questioning it, so that what I should say, and I think it is an accurate statement, is that these excesses of revenue were not foreseen by the highly responsible and capable officers of the Government of India who prepare the Budget. It is probable that they could not be foreseen. You know that in preparing a budget one's personality does play a very considerable part.

78 That is sufficient for my purpose at the moment. I understand from that that the balances were not raised to this amount of set purpose?—No.

79 But were brought to it by accidental causes which had not been foreseen?—Yes. I ought to say

that so far as money was kept in the balance from say, the end of 1910 to some time early in 1912 in order to be used then for paying off debt, to that extent it was voluntary and deliberate, and for reasons, and I think adequate reasons, which are set forth in this despatch of Lord Crewe's of December 1910, but except for that, as you say, the high balances were involuntary.

80 As regards the division of the balances between India and London, what determines the amount of the balance which is kept in India, I mean the proportion of the balance?—There, again, I think Mr. Gillan will agree with me, but of course he may wish to correct me. The Secretary of State, in making his budget, which involves, among other things, drawing money from India, says to the Government of India, "How much can you spare?" because, of course, you would never dream of drawing from India more than the Government of India could spare, but I fancy that of late years the Government of India have, and, as far as I can judge, very wisely, rather raised their estimate of requirements. I fancy that Sir James Westland, who was a very eminent Comptroller General, used to be very proud of being able to say, "I can work the business of the Government of India on eight crores of rupees, at any rate as a minimum," which comes to between five and six million pounds sterling. Nowadays I think the Government of India always say to the Secretary of State, "You must leave us a closing balance of twelve and a half millions or thereabouts," and the Secretary of State has always accepted that, it is the kind of thing he would never question. If one says, "What is it based on?" I can only say that I presume it is based on actual experience. In some of those papers you will notice a discussion of the sort of experience upon which an estimate of the balance required can be fairly based. In one of Sir James Westland's papers you will see that (pp 42-7).

81 Speaking generally, do I understand that you keep in India what the Government of India consider a reasonable minimum balance?—I do not know whether "a reasonable minimum" quite hits it off. I should say "a reasonable balance." I mean I would not think it is right, if I may use the expression, to cut the Government of India to the bone—to bring down their balances to such an extent that there would be a danger of inconvenience to them. I should say "a reasonable balance" rather than "a reasonable minimum balance."

82 But substantially you keep as much of the balance as you can in London?—No, we do not keep as much as we can in London. That really is a very important distinction. We bring to London as much as we can without inconvenience to the Government of India, not in order to keep it there, but in order to spend it there, and I think you will see that it is very important to distinguish between those two things. Supposing that in a certain year the Secretary of State decided that he could bring over two million pounds more than someone else thought that he might bring over, the effect of his doing that, if he conducted his affairs in the way in which Secretaries of State usually do, would not be that he would end the year with two million pounds more money, but probably that he would end the year having either borrowed two million pounds less for his new railways, or having paid off two million pounds of temporary debt, or something of that sort. I am very anxious, if I may say so, more especially in view of a good deal of misunderstanding that has arisen, to emphasise the difference between bringing over as much as the Government of India can spare and keeping in London as much as they can spare. I think I have made the difference clear.

83 I think I understand. Is this correct? That you keep what is considered by the Indian Government a reasonable balance in India?—Yes.

84 That you transfer everything over that figure to London, but that by the end of the year, subject to such contingencies as you have described to us a little earlier, you expect only to have a reasonable balance in London also?—That is so.

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85 Having employed the other money transferred to London from India in the interval on behalf of India in place of fresh borrowing?—Yes

86 In paragraph 13 of Appendix I you speak of alternative possible methods of dealing with Government balances in India. The first you say would be to increase, either with or without interest, the amounts placed with the Presidency banks?—Yes

87 I gathered you are not in favour of that course?—I would not quite accept that, and before I speak about this may I say what I think will be clear to you, that although I come as a representative of the Secretary of State, what I say is not to be taken as an authoritative statement of his policy? Lord Crewe has very kindly allowed me a certain latitude in putting my own opinion, so long as I do it with discretion, on some points which are necessarily matters of opinion

88 We will take your opinion in this matter as the opinion of a person of great experience?—It is very kind of you. As regards lending to the Presidency banks, the important question is whether they are strong enough to be recipients of much larger sums of money than they now hold. I should like to say that I have no clear opinion upon that subject myself. I think it is a question of the most enormous difficulty to say at what stage it becomes unsafe for a very big customer or depositor with a bank to increase his deposit with that bank. I was anxious, though I do not profess to give exhaustive figures, just to give you some figures which might be helpful to you. I am departing, I may say, a little from the order in which that memorandum was written, but I think this oral order is a little more logical. If you look at these figures, which are given in paragraph 15 (2) of Appendix I, you will notice that the percentage of government deposits, both to cash and to capital reserve, are much higher—may I put it in this way—than you would expect the percentage of any one customer of a bank would be in this country. At least, I think most bankers would be rather surprised to find in this country that they owed a particular depositor say 30 or 56 per cent (to quote figures which I notice) of their total cash, but though I think those figures ought to be borne in mind, I do not say that they are conclusive. I feel really very much my incapacity to form a very definite opinion upon the subject. I would draw your attention in passing to the middle column, "Bank of Madras, 1911, March." If you will notice the figure there, the percentage of government deposits to cash is 121 per cent. I think that at that particular time it would not have been a good thing to lend more government money to the Bank of Madras, but I merely mention this as one of the subjects which would have to be considered and about which a conclusion would have to be reached before the Government placed large additional sums, especially without security, with the Presidency banks. Then if that question is settled, I mean if it is considered that large additional sums may be placed with the Presidency banks, then I was rather interested, and I have ventured to go beyond what has ever been said in the India Office upon the matter, in regard to what should be the source from which the money should be provided, and suggested that the source should be the paper currency reserve.

89 We will not open that question just now. I understand that you do not wish to express a decided opinion as to increasing deposits with the Presidency banks, either for yourself or for the Secretary of State?—No, I think it is eminently a question which wants very full consideration much fuller consideration than has been of recent times given to it in the India Office.

90 Has it been proposed to you from any responsible source?—I do not think so. Of course, we are very often in communication with the Government of India on this question, and we note their statements and their replies, and naturally we are very much influenced by their views upon such matters. I think I might draw your attention to what the Government of India said quite recently in this Memorandum on India Office balances, it is a paper which we presented to Parliament\*. We mention there that on Sep-

tember 18th, 1911, when the Financial Member of the Government of India was asked at a meeting of the council—the question did not directly raise the making of loans to the Presidency banks, but I think you will find that the answer did—whether the Government would lend to the money markets of India when their balances were high, he said "The Government of India leave considerable sums out of their Indian cash balances on deposit with the Presidency banks. They do not consider it advisable to make a practice of lending to the money markets in India in any other manner or to any larger extent." Of course, the Government of India is the most authoritative and responsible adviser for the Secretary of State in such matters.

91 That is a strong expression of opinion against it, you have had no strong expression of opinion in its favour?—Well, the newspapers are very full of it, and a good many individuals, to whose opinions I should attach much importance, have often said to me that we ought to do something in that way.

92 Perhaps we had better wait until we have one of those witnesses before us?—I wanted at some time to mention, because I think it will be useful to you, a further expression of opinion from the Government of India on a similar question.

93 Please do so now?—In a telegram, which is long, and with the greater part of which I will not bother you, the Government of India say to the Secretary of State, "In addition we would remark that, while we are ready when money is required owing to quite exceptional market stringency to make advances to Presidency banks, we have for five or six years past received no request for loans of this kind."

94 (Mr Keynes.) What is the date of that?—That is 22nd January 1913. Then dealing at the end of this telegram with a large number of questions which were discussed—I think, perhaps, at some time, I might read the whole of it, but I do not want to take up your time now.

95 (Chairman.) Can we have it before us?—It says "On the points put to us, we think that although improvements may be from time to time suggested by experience, the practice now obtaining is generally sound, and having regard to the absence of complaints over a long series of years that responsible opinion in this country is in agreement with us." That rather emphasises what I read from the memorandum, but it is a little more explicit, and I thought it was worth mentioning it.

96 I gather that you would not suggest lending to any other banks in India?—On that question again I have to plead that my information is rather incomplete. You will notice that in the information I gave you about minor banks the figures were all lumped together, 20 banks with a capital of so much, and deposits of so much. The reason I gave them to you in that not very good form was that the documents from India did not enable me to give it to you in greater detail. I dare say it may be worth inquiring from Indian witnesses whether among the other banks in India there may be some who would be suitable recipients of government deposits. I do not know. I would suggest that that is a point upon which Indian experience might be sought.

97 I think it has been suggested that you might lend money to firms and institutions other than banks. Do you wish to say anything about that proposal?—I would only like to say this, that I have often spoken about it with commercial men and others who have a great deal of knowledge of Indian conditions, and most of them have thought that it would not be a good thing for the Government to lend in India direct to commercial firms. They have mostly thought it would be better to put money with banks and then let the banks have the duty of exercising discrimination and have the responsibility, and that seems to me to be the common sense, but otherwise I have no special knowledge of the subject.

98 You spoke at an earlier point of your evidence of the possibility of establishing a central bank, and I think there were some papers which you offered to give

\* Cd. 8619

\* See Appendix II., page 66

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to us in that connection?—Yes

99 Do you think that the establishment of a central bank would largely affect the questions of the balances kept in India?—That is a very difficult question, for this reason. Supposing you had a central bank with a capital consisting of an amount equal to the capital of the present Bank of Bengal plus the capital of the present Banks of Madras and Bombay, of course you would have no stronger body to deal with than you have in the three separate Presidency banks now. But if you had a central bank with a capital of the amount of the respective capitals of the three Presidency banks plus four or five million pounds more, then you would be in a better position to lend money to the banks, and these rather extraordinary percentages, to which I drew your attention, would come down to some lower level, I mean those percentages in paragraph 15 (2) of Appendix I. But the important fact in answering this question seems to me to be that whenever a question of increasing the capital of the Presidency banks has come up (and it has come up from time to time) the Presidency banks have received it, I was going to say tepidly, but I think, perhaps, I ought rather to say frigidly. I have some extracts here, but I do not think it is worth while troubling you with them—

100 I am not now asking about the opinion of the Presidency banks. We shall probably get that better from the representatives of those banks themselves. I was asking for your opinion, or for the opinion of the Secretary of State in Council, in whichever form you like to give it to me?—I think the right answer is, if a central bank had a much larger capital than the respective capitals of the three banks, it would obviously be a safer banking body with which to place large sums of government money, but that answer is almost a mere formal answer, I think, unless one adds that the willingness of the Presidency banks if amalgamated, to add to their capital is very doubtful.

101 In the meantime the Government of India does a great deal of banking business itself?—Do you mean in exchange business?

102 Exchange business, and, apparently, in coming to the aid of trade and the money market in times of stringency, and in a number of different ways?—I think if you asked Sir James Begbie he would say that actually the Government of India does extraordinarily little in coming to the aid of the money market in times of stringency. In the telegram, of which I read you an extract, the Government of India mention that it is many years since they were asked to grant a loan in times of stringency, and, in paragraph 10 of Appendix I, I give a list (I think it is complete, but I am not sure) of occasions upon which the Government of India have done what you say, and the lists ends rather remarkably with the year 1906.

103 But I understand, although the occasion has not arisen, the Government would be perfectly ready to do it if the occasion arose again?—Yes, quite so, but the occasions do arise infrequently.

104 The Government of India does a great deal of business which the Government of Great Britain would not touch?—Yes.

105 In putting that question I wish you to understand that it is a question, it is not a criticism at this stage. I am merely trying to get at your view of the facts?—Yes, what I wanted to say in reply to that is that it is perhaps not strictly accurate to describe what you have just mentioned as "banking business." If the owner of a large sum of money feels that he cannot employ it himself and puts it in a bank, in a way I see what you mean by describing it as "banking business," but perhaps that is not the exact description of it.

106 "Business usually done by bankers," would that meet your view?—No. Supposing that any of us were fortunate enough to have 5,000,000, at our disposal, and we paid it into a bank, which is what the Government of India does in these circumstances you describe, that is not banking business. As a matter of fact, it facilitates the operations of banking as carried out by bankers, but it is what I should call rather the customer's business than the banker's business to pay

the money into the bank.

107 As regards the India Office balances, you have already told me that you aim to keep them low at the end of each year, working them down at the end of each year to what you consider a reasonable figure?—Yes, which figure would vary to some extent with the year, but not very much.

108 And is regulated by the experience you have of the average needs?—Yes. One might put it a little more strongly. One knows really in March, what one will have to spend in April, at least one knows to a very great extent, and you will find when you come to Mr. Badcock's figures\* that actually in the first days of April we do have to spend enormous sums of money, so that that is the governing consideration in fixing this balance at the 31st of March.

109 How far do the gold standard and paper currency reserves affect the amount of the India Office balance?—I should say that they do not really affect it at all. Of course, certain sums pass through the India Office balances on their way to the gold standard reserve or the paper currency reserve, but it is a mere passing through. I do not know if you have this in your mind, that in the same way as we lend our India Office balance proper we usually have a million pounds on account of the gold standard reserve lent to approved borrowers, but, subject to that, I should say that those reserves which you mentioned are quite distinct from the India Office balance.

110 With regard to council bills and transfers, when did the practice of selling council bills and transfers begin?—I think it was 1862. I have not myself looked into the old papers, but I am assured that that was the case.

111 I understand that you do not propose to give details of these transactions, and that they will be given by Mr. Newmarch of the India Office?—Yes, of course it is difficult sometimes to distinguish between details and principles, but I do propose to give that sort of information on the subject which is contained in the prints that I have already submitted.

112 Perhaps you can tell us within what limits the Secretary of State is willing to sell bills?—Limits of price, I think you mean.

113 I mean both. I meant, in the first place, limits of amount. The general practice of the Secretary of State as regards the amount is to sell freely, that is to say, so long as the Government of India could meet the bills without inconvenience to themselves, the Secretary of State would sell to applicants, subject to this when the demand was large he would like to get a good price for them, and he would be specially anxious to do that because, unless he raises the price, and, possibly by so doing reduces the amount, at times of pressure, there is no probability or no great probability, of large amounts of gold going to India. I do not know whether you have followed the competition between gold going to India and the sales of council bills, it is a somewhat technical subject.

114 You must assume, please, that I do not come here equipped—that I have to get my knowledge here?—Perhaps I had better say a word about that. When, let us say, an exchange banker has to provide, or, as he always says, "lay down" a certain sum of money in India, there are various ways in which he can do it. One way is to buy a bill or telegraphic transfer from the Secretary of State. Then he pays the money to us, we telegraph out, or we send out the bill, and the representative of the purchaser receives from the Government of India such and such money in rupees. The alternative system, or the alternative open to the purchaser, is to take sovereigns, either from Australia, or from the Bank of England, or from Egypt, wherever he can get them, and to send them to the Government of India, and get rupees in exchange for them, and he gets them then at a fixed price. There are 15 rupees issued for each sovereign, which is 1s 4d per rupee. Of course one cannot speak definitely about costs, because costs are continually changing but it costs, I should say, one-eighth of a

\* See Appendix XI., page 230.

† See Appendix VII., page 217.

\* See Appendix XV., page 355.

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peny to send to India the part of a sovereign which is equivalent to a rupee. I mean a man who was sending out sovereigns would probably have to pay in gross (including interest) the equivalent of 1s 4½d per rupee, so that if the Secretary of State were always selling his bills very freely and in large quantities no one would ever send out sovereigns, or very few people would send out sovereigns for currency purposes, or for exchange purposes, and the Secretary of State has to try so to sell his bills as not to interfere with the flow of gold to India to a reasonable amount. I do not know whether I have made that clear?

115 I am not sure that I entirely follow what in practice that amounts to. I said: What are the rules with regard to the sale of these bills, to what extent is the Secretary of State willing to sell? Is the answer: To such an extent as does not prevent the reasonable flow of gold to India?—I say that is one of the conditions to which he has regard in fixing the actual amount of his sales from time to time. That is not the only condition, but that is one of considerable importance, which I mentioned here more especially, because some critics have imputed to the Secretary of State principles which he does not hold, and which he does not follow in this particular matter. But I should say then, if I have made clear the point about the competition between gold and bills, that the Secretary of State generally sells freely, so as to meet the demands of trade, subject to not interfering unduly with gold going to India, and causing no inconvenience to the Government of India, who have to pay these bills, and also—this comes to the other part of your question—subject to not selling at a lower price than 1s 3½d per rupee, and I ought to mention, to make it complete, that he has given an undertaking to sell, without limit, bills at the price of 1s 4½d per rupee.

116 Then the amount of his sales is regulated not by the amount of his own requirements, but by the amount of the trade requirements of India?—I think that is about 90 per cent true, if I may put it so. I mean when an estimate is drawn up of what will be sold in the course of the year, his own requirements are what are mainly considered in drawing up the estimate, and I think, to some extent, at some periods of the year, the attempt is made to make the actual transactions conform to the estimate, but I do not think it is a very vigorous attempt, and supposing one finds, as the year goes on, that the Government of India can meet bills freely, and that there is a very great trade demand for bills, and at the same time there is a sufficient amount of gold held by the Government of India, so that people cannot say that the internal circulation of gold is being starved, then the Secretary of State would sell freely, and would gradually come to be guided by the trade requirements, rather than by his own requirements for expenditure.

117 The governing factor would not, in that case, be the amount which he had to transfer from India to England?—No, as the year went on, he would gradually, towards the end of the year, which is the busy season of the year, be guided by the other considerations which have been mentioned.

118 Then do you think that that is business which might fairly be called banking business?—Yes. When you asked whether the Government of India did banking business, your question came at a moment when you were discussing what you may call the deposit side of banking business, and I think my answer was that I did not think that the Government of India did much of that kind of banking business, but that they do do exchange banking business, so that my answer to your present question is in the affirmative.

119 Would you see any advantage in transferring that business to a bank, or to a great central bank, if they were able to take it?—I hope later on, if you wish to hear me on the subject of a bank, to deal with that question more systematically, but perhaps I may say this at this stage, that although the Secretary of State has never considered the matter, and indeed when considering the question of a big central bank has always left the exchange question, I mean the question of transferring exchange business to such a bank, out of consideration, still I personally see some

advantages in letting business of this sort be done by a bank, subject—and I want to say this at the earliest possible moment, so as not to give rise to any misunderstanding—to a very large degree of government co-operation and control, which I think would be necessary before such business could be entrusted to a bank.

120 If it can be done, do I gather that you would think it desirable to do it?—On the whole I rather like the idea. Whether the Secretary of State would like it I cannot say, but I have made clear to what extent I am speaking of my own opinion.

121 (Lord Faber) There are a few questions which I should like to ask you. Some of them are no doubt due to my ignorance. You began by saying that India in the last two or three years had found it much more difficult to borrow, but I apprehend that that does not apply to India alone. That is general, all gilt edged stocks have fallen?—Certainly.

122 India's credit is as good relatively as it was?—I am the last person in the world to wish to answer that in the negative, but I am afraid you will find if you compare Indian stocks say with Colonial stocks or London County Council stocks, and so on (which I think you will agree is a fair comparison), that India has rather gone down. My recollection is—but this is a very rough observation—that at one time Indian stock stood about half-way between London County Council stock and Local Loans stock, all being 3 per cent.

123 I think you are right there. My impression is (and, of course, as a banker one comes across these things very frequently, and the reason of them), that by the treatment which was meted out to some of these railway debenture holders when they were paid off under the Madras Railway arrangement, for instance, and other big things of that sort, the shareholders thought they had been hardly dealt with, I do not say unjustly dealt with, but hardly dealt with, and that rather, perhaps, hurt Indian credit?—Of course you only put this in incidentally, but would you allow me to say that I do not think that is the real explanation. I should be very sorry to raise controversy, especially on things that are unessential but I do venture to think that such troubles as we have had with railway companies have been very amicably settled, that any grievances have been forgotten, and that after all these transactions to which you referred had taken place, India stock stood at the level which I mentioned, half way, say, between County Council stock and Local Loans stock, and since then, when no new railway controversies have arisen India stock has rather gone down, and I think that the explanations are really fairly obvious. One is that India has issued very large amounts, whereas the County Council has thought fit practically to stop its issues of stock, and the other is that, as is notorious, there is a certain amount of uneasiness, I mean people read about the sedition, and so on, and that is a point against India stock.

124 Then, in answer to our Chairman, you rather astonished me by saying that if there is a surplus in the budget of any year it is not used to pay off debt, but it is carried forward, I conclude. Do you not think that that is a bad principle? At home we always think that it is a safeguard, as I think Mr Austen Chamberlain will tell you, that a Chancellor of the Exchequer, if he budgets for too much, cannot take advantage of that surplus, and therefore a Chancellor of the Exchequer has no reason to budget for more than he wants, because he cannot use it himself. Now here you budget for too much, and it is apparently owing to that that you have these big balances?—Yes. As a matter of fact, no one regrets more than I when there are striking differences between budgets and actual results. I mean it is unfortunate that one cannot foresee the future, but, of course, the circumstances in India have been such that foresight was really extremely difficult, if not impossible, for some years past. But, as regards the disposal of this unexpected surplus which was the main object of your question, if in a certain year one wants six millions for capital expenditure—I take that as an illustrative



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figure—supposing that at the beginning of that year you find that you have an unexpected balance of four millions from the previous year, I do think that you will agree, on turning over the matter, that there would be no great advantage in first of all spending that four millions on buying up and paying off four million pounds worth of India stock, and then perhaps a week afterwards—I put an extreme case—issuing six millions in India stock. The neater and more economical way seems to be to use your four million pounds for capital purposes, and to borrow two million pounds.

125 You mentioned Lord Northbrook's fears in 1874, I think it was, and you read to us certain strenuous agreements which were made with banks regarding the government deposits. I would ask you this question. In time of great stress do you think an agreement is worth anything at all if the cash is not there?—I might answer that question rather briefly, but it is more courteous to put the real facts, I think. The Government of India has, I think, never failed to keep with the Presidency banks the full amount which the Presidency banks may reasonably expect. What has happened from time to time is that the Presidency banks have wished to have extra amounts kept with them, or to have a high balance which existed at the moment allowed to continue for a long time, and then differences of opinion have arisen. You will notice in Lord Northbrook's instance that the Government of that time had with the Bank of Bombay one million pounds sterling, which was much more than the bank could expect, and in that instance the Government proposed to withdraw 350,000*l* leaving 650,000*l*, so that the demand for exceptional treatment was on the side of the bank, which wanted more than usual.

(Lord Faber) I am rather alluding to such an instrument as an agreement with a banker. I speak now as a banker, an agreement with a bank is of no use if the bank has not the money to pay back the deposit, the only thing which is of use is to give security, and without security the agreement is worth nothing.

126 (Chairman) May I interject to make the meaning clear? You were defending the Government of India against a possible charge of not fulfilling its obligations to the bank, but Lord Faber was asking as to whether the banks would be able to satisfy their engagements to the Government of India?—I see. Under existing circumstances and the existing agreements, the banks can fulfil their obligations. Since 1874 the only breeze which appears to have arisen was in 1888 or 1889, when an incident occurred, which is mentioned in the papers I have put in (*see* Appendix II, page 41). At present the banks can habitually fulfil their agreements and obligations to the Government.

127 (Lord Faber) The Chairman, I think, has well put my point. My point is. Is an agreement worth anything? Security is, but is an agreement without security?—I am not sure that you do not overestimate, or that I have not led you to overestimate, the importance of this agreement. *Prima facie* the object of this agreement is to settle the remuneration of the banks. It is not really to settle the relations of the banks as banks, and the Government as depositors. The agreement settles such rather trivial points as whether the banks, say, shall have 800*l* or 1,000*l* a year, and from that point of view I quite agree with you that the agreements are not very important.

128 Then I will ask you three direct questions. Are the deposits with the Indian banks secured?—Do you mean the Government deposits?

129 Yes, the Government deposits. Have they security? Let me give you an instance. If the London County Council have a big deposit with a London bank, the London County Council get security from the bank. The banks do not like it, but so it is. Do the Government of India get specific security?—No, they are merely general depositors with no specific security.

130 Are the London balances which are lent out here lent on security when they are lent to banks in London? I know they are generally lent on security, but when you have deposits at banks in London do you take specific security from those banks?—I think that there have been one or two banks—I mean joint stock clearing banks—which gave security. But generally

the answer to your question is that the deposits are not against security, they are general deposits.

131 You were asked about loans to provincial governments. Merely as a banking question, I quite think, with the Chairman, that when the Government is under agreement to find cash for, say, Assam, they should mention it in their balance sheet to show that these balances are held subject to an agreement to lend Assam, or whoever it may be, half a million of money, or something of that sort?—But may I say this?—perhaps I did not make myself clear. All this information which, as you very truly say, ought to be in the government accounts, is there already.

132 Thank you. I did not understand that?—If it were of any interest to you—it probably is not—I could show you in any annual statement where the exact amount is given.

133 That was not quite clear to my mind. Government balances were increased, you told us, because a certain amount of money was not spent on railways which had been budgeted for. Can you tell us, for my information, why that was not spent on railways?—I am sorry to say that that is a subject of continual discussion. We are always asking railway companies why they do not spend all their amount. As a rule they say—I do not think they really mean it—that it is because the Government does not tell them early enough in the year how much there is to be at their disposal to enable them to make arrangements in time. There is a natural tendency, and it is quite proper, to put the blame for everything on to the Government in the first instance, but then they very often go on to say that this year there is a coal strike, another year there is a railway strike, which hinders the transport of material, and so on, or another year that the manufacturers are so full of orders that all the orders get delayed, perhaps two weeks or three weeks, and you get in April, that is to say, next year what you ought to have got in March, this year. They are all the general explanations which I think would occur to anyone.

134 Not quite satisfactory from a business point of view, are they? I mean here in England we had a great coal strike last year, much bigger than they have ever had in India, and we still go on with our capital expenditure on railways?—Pardon me, these failures to spend up to the full amount occur to a great extent in England. If we want a locomotive, or rails, or bridge work, or anything of that sort, for an Indian railway, we buy it in England. When I spoke of the coal strike I meant the English coal strike.

135 I should have thought there was much more delay in India in this thing than there was in England, for instance. However, I will not press that. I have very few more questions. For my information again why is it more important to pay off bonds than bills? What is the difference between the two?—There is this difference. When you have a bond maturing, or, at any rate, the particular kind of bond to which I have referred, you really have to pay it off at its date. If you made efforts to renew this particular sort of bond, it would be a very curious thing indeed to do, but when you are dealing with India bills it is the most natural thing in the world, if it is not convenient to you to pay them off, to go on renewing them. The Treasury goes on renewing Treasury bills automatically until it happens to wish specifically to pay them off. Now, if I may, I will put in a word of explanation about these bonds. They are of two kinds. There were first of all a great number of debenture bonds that had been issued by various railway companies—the India Midland Railway for example, or the Madras Railway—and while the railway continued in existence, it was the most natural thing to renew the debenture bonds from time to time on terms agreed between the holders and the railway company, but when the railway company goes out of existence there is really no one who can renew the bonds, the railway company is dead, and the Secretary of State has taken over its obligations, and it is for him, when a particular obligation matures, to meet it and to pay it off. He cannot go on renewing as the company would have done. Then the other sort of

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bonds that we have to deal with is what are called India bonds. We issued four million pounds, I think, half a million pounds to mature every year for eight years, but it is part of the terms of issue that the holder is the holder of a gradually decreasing security, and that is a great advantage to the holder. If having issued on those terms, we made terms for renewal with the holders of half a million pounds' worth that were due to be paid off in one year, that would be an odd thing to do, which you would not recommend.

136 I listen with great interest to what you say, but I should have thought that it did not matter two straws whether the Indian Government issued a bond or a bill, their security covers both, and they are both looked upon as A 1 securities in this country?—Yes, that is true, but it is a rather different point that I am making. Supposing that an India bill matured at a certain time, you would never think it odd that we should renew it if it were not convenient to us to pay it off.

137 Of course, you would be obliged to pay the bond off if the holder wanted it, I know that quite well?—Now let me put this point. Supposing, in respect of these India bonds of which I have been speaking, instead of paying off by lot at the right time, one went to the holder and said, "It is not convenient to us to pay what we have contracted to pay, cannot we make some private arrangement that 'we are not to pay?'" it would surely be an odd, and in the technical sense—I do not mean in the moral sense—a discreditable proceeding, discreditable in the sense that it would not be good for our credit.

138 I am afraid I have troubled you at great length, but this is my last question. Should the Government do what the Chairman has called, and I think rightly called, all this banking business such as exchange, large deposits on security and unsecured, gold standard reserve, and all this gold coinage, should not that be done by what we should call the Bank of England in England? Should Government officials be called upon to carry out what is absolutely and wholly a trade in itself which takes a lifetime to learn?—I should like, if I might, to answer your points one by one, because what applies to one branch of business does not always apply to the other. I think you mentioned exchange.

139 I did?—And the amount of balances.

140 Yes, on security and unsecured and then what is called the gold standard reserve and gold coinage?—May I very briefly answer them one by one, because they are very different businesses. As regards exchange, it is done I will not say automatically, but with so near an approach to automatism that I do not think there is very great advantage in the Government doing it. Although, as I say, I do not know whether the Secretary of State would agree with me or not, I do see certain advantages in transferring that business to a bank, if a bank can be established under suitable conditions. At some time I shall have an opportunity of mentioning why I think a great deal of Government control would be one of the conditions. As regards lending balances, here again, in my private judgment your remark has its greatest force and applicability in its relation to that particular branch of business. As you know, a Government official, like me for example, can never acquire even a moderate knowledge of that sort of subject, and it is not desirable that any Government official should give his mind to it. He has other and different things to do, but, of course, you know that we have the great advantage of very distinguished bankers inside the India Office who do supplement the deficiency of the Government official in that way.

141 Will you tell me whether you think that in India there is scope to lend these great balances on gilt-edged securities? Can large balances be lent in India, or would it be better to transfer them to England? If you can do it in India it would be better, but can you?—You raise many big questions. If you suggest the advantage of transferring balances largely from India to England because they can be better lent in England, then I say you must not overlook the possibility that the lending of balances in India might be very useful at certain periods for

Indian trade, and if the Government of India could help Indian trade in that way without any risk of impropriety it would be an excellent thing.

142 I merely say can they do that, because at present you do not appear to be able to get security even, which astonishes me?—If your question is directed to this, that any such lending of Government balances can be better done through a bank than through a Government official—I do not know whether I am right in understanding that that is your point.

143 No, I am more on whether it is possible either for a Government bank or a Government official to lend large balances on security in India?—I think that that must be judged by experience. I can certainly say that the Government does deposit with the Presidency banks, to the great advantage of both parties, I should say, sums which I should call large—at any rate, appreciable sums.

144 But it does not carry out my fundamental principle. I said "on security"?—No, I do not know how far the Presidency bank would be prepared to give security. I should say probably, since it has enjoyed the balances for so many years without security, it would not like to change at this moment.

145 Thank you, I am much obliged?—May I just remark, in answer to a point of Lord Faber's, which we rather overlooked, that I see great force, naturally, in all that he says about the Government not being a suitable body to do exchange business, lending balances, and so on, but I do not think that applies to the other two points he mentioned, namely, the gold standard reserve and gold coinage.

146 (Sir Robert Chalmers) Following up Lord Faber's question, if security were taken from the Presidency banks, that would be Indian securities of a rupee character?—The Presidency banks can, as a matter of fact, invest their funds in Consols and all sorts of things. I do not know if you are at all interested in the limitations of their business, and what they may do, and what they may not do. If you are I can tell you.

147 The point I want to be clear about is whether, if you get the security and hold it in considerable quantity, it would be possible to realise that security in an emergency?—No, in that Memorandum which the Secretary of State published,\* he mentioned that point. One of the difficulties of lending on security in India is that if you had rupee paper and had great quantities of it, it would probably be difficult to realise it in an emergency. On the other hand, you must not, if I may say so, exaggerate the importance of that point, because, if you do your lending well, the occasions on which you do have to fall back on your security, or what some people call your collateral, are very very infrequent indeed. I think that Mr Badock will tell you that in sixty years we have only had to do so about twice or three times in the India Office.

148 The object of the Government, either here or there, is not to create balances. The balances come to them, and they wish to keep the balances, as I understand from you, as low as they conveniently and reasonably can?—Yes.

149 That is so?—Ordinarily.

150 That applies to India and to London?—That is so subject to this that if you have in front of you a year with very large disbursements, you might like to open that year with a sum above your usual opening balance.

151 It is rather forced on you?—It is rather forced on you, yes.

152 But you do not create balances for their own sake?—Certainly not.

153 As a matter of economical working especially as you are a borrowing authority, borrowing on bills, your object is to keep your balances down?—Yes, it is to keep the balances to the amount required, neither more nor less.

154 Required for your own purposes?—For the purposes of India.

155 For Government purposes?—That is so yes.

\* Cd. 6619, page 6.

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Mr LIONEL ABRAHAMS, C B

[Continued

156 Therefore you do not like to have any balance generally available for lending out for the support of the market, that would be an incident?—Are you speaking now of the market in India?

157 Yes?—I do not think I would go quite so far as you. I think you have to realise this, that in India there are so many uncertainties, what with monsoons, which are apt to fail at the critical moment, that you do have to keep, and it is wise to keep, a rather liberal balance, a more liberal balance than you at the Treasury would keep, in view of the possibilities of bad times. Probably in five years out of six you would be able to lend something—I do not say on a great scale—if you so desired, and if you care for figures, which probably you do not wish to have, you will notice that in the reserve treasuries—they are what you might call the temporarily immobilised balances—there are appreciable sums, as a rule.

158 Of course, that would be the case in five years out of six?—Yes.

159 What about the sixth?—That, of course, is a very difficult point. If you were lending out of your Treasury balances, you might find in the sixth year, when everyone was very anxious to borrow from you, that you had a famine, and a frontier campaign, and difficulties of that sort, and that just at the moment when people wanted the money you could not let them have it, and I may say that that was one of my reasons for mentioning the paper currency reserve as a much more trustworthy source, if you are to lend at all, than the Treasury balances.

160 As to council bills and the removal of the duty of selling councils to a bank or banks, that would cost a little more?—Yes.

161 And so that would be popular with the recipients of the extra cost. What particular gain do you think would come from introducing banks into this business of selling councils?—The gains are not very substantial, but I think there are some. Just let me mention one or two. Of course, we in the India Office, as I dare say you realise, are not in any cowardly sense afraid of criticism. We often feel that we have to face adverse criticism in the discharge of our public duty, but *primo facie* if there are two methods of doing a piece of business, one of which may expose you to criticism, and if I may say so without disrespect, occasionally to partisan criticism—I mean party feeling even in Parliament is strong—and then there is another method of doing business which is likely to avoid that criticism, the second method has, so far as it goes, an advantage. If the Secretary of State sells five million pounds extra bills in the year there is always a possibility that he may be criticised. I do not say that it is very serious or that he would be much hurt by it. If the Bank of India, corresponding, say, to the Bank of Japan, sold five million extra bills in the same year, and in the same way, people would probably say “Of course, these masterly bankers know their own business, and there would be advantage in the avoidance of criticism. It is a point of perhaps much greater importance, that this selling of bills by the bank would go with the transfer of other Government business to a bank. I mean if it were a question of merely transferring to a bank the sale of council bills and nothing else, then the only advantage would be the one which I have mentioned, and on that account it would not be worth while doing it, but if you added to it the transfer to the bank of the lending of balances both in England and India and with certain other advantages, then the cumulative effect might be considerable.

162 It is rather a big question that I put to you next. What do you think is the relation of the Indian money market to the London money market? Is it subsidiary, or ancillary, or what?—It is extraordinarily difficult to tell. I should say, as far as I have been able to judge, that there is very little in the way of sending banking money from London to India in the same way that a rise or fall in the bank rate might cause a transfer of funds between London and

Paris, or London and Berlin possibly. I should say that except for their necessary connection as being countries which do trade with one another, the connection between them is extraordinarily slight, and much less than people expected 15 years ago when you and I had the privilege of listening to the discussions of the Fowler Committee. They then thought that there would be a continual flow of banking money, because a bank would say, “There is a good opportunity for getting a little more interest if we send our ‘funds to India.’” I do not think, as far as I can judge, that there is much of that.

163 Is “the Indian money market” a term which applies to traders with the West in the main? Does the Indian money market include the supply of funds for natives engaged in the ordinary operations of agriculture and trade, or is the latter domain really in the hands of entirely different people of a merchant character?—I should say, but of course Sir James Begbie knows a great deal better than I that his bank would probably have a vast number of Indian customers. I should expect, though I do not know, that probably most of them were engaged in trade.

164 Parsees?—No, the Parsees as you know, are a very tiny community. I should expect that the connection of the big Presidency banks with the natives of India was very widespread, and I would add that the Presidency banks lend on what you might almost call agricultural security. They had then powers enlarged so as to lend on estates which are under Government management, and so on. I think, so far as I follow the exact scope of your question, you regard what is generally called the Indian money market as having a much narrower scope than it actually has, but I say that subject to correction from people who get their knowledge on the spot.

165 So far as your observation and experience have gone, there is remarkably little connection to-day between the London money market and the Indian money market. Is that your opinion?—I am speaking of the special connection which I thought you had in mind, namely, the transfer of funds by bankers from one market to another in order to employ the funds more profitably. Of course, as you know, the sale of bills, not only council bills, but mercantile bills, is on an enormous scale, and in a sense each such sale is a bond of connection between the two money markets. But I do not think that is what you were referring to.

166 Do you think that in India there is a greater community than my question might have suggested between the financial interest of the ordinary agriculturist and the Anglo-Indian trader—that they all have reference to the same market, and that there is not a lower domain there where the Mahajan is dominant?—Now that you speak specially of agriculturists I should think that the agriculturist probably dealt with Indian financiers—

167 He would be outside what we have been previously calling the Indian money market?—Yes, I should think so.

168 Therefore it would come to this—that if you did, as you do not want to, accumulate large balances in India and lend them out to what is called the Indian money market, it would be a small section of the Indian interests and population which would be benefited?—I think that that, if I may say so, is almost—may I use the word—over-ingenious. May I just put what I think the answer would be from the point of view of a person who took the opposite view from you? He would say, It is quite true one lends to, one might almost say Sir Ernest Cable’s firm, and Sir Ernest Cable is one individual European, but then that firm may go half over the Province of Bengal buying jute, or whatever that firm happens to buy, bringing happiness and prosperity to thousands, hundreds of thousands, millions, of producers, so that by making the operations of the European firm easier, you have very closely and beneficially affected vast quantities of the poorer Indian agricultural population.

The witness withdrew

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Mr LIONEL ABRAHAMS, C B

[Continued

At the India Office, Whitehall, S.W.

## SECOND DAY.

Thursday, May 29, 1913.

## PRESENT

THE RIGHT HON AUSTEN CHAMBERLAIN, M P (*Chairman*)

Lord FABEE  
 Lord KILBRACKEN, G C B  
 Sir ROBERT CHALMERS, K C B  
 Sir ERNEST CABLE  
 Sir SHAPURJI BURJORJI BROACHA

Sir JAMES BEGGIE  
 Mr ROBERT WOODBURN GILLAN, C S I  
 Mr HENRY NEVILLE GLADSTONE  
 Mr JOHN MAYNARD KEYNES  
 (Mr BASIL P BLACKETT (*Secretary*))

Mr LIONEL ABRAHAMS, C B, recalled and further examined

169 (*Sir Ernest Cable*) You must have noticed the criticism from time to time of the Secretary of State's action in selling your bills below 1s 4d?—Yes

170 You mentioned at the last meeting that this was sometimes done when it has been stated in letters to the Press it was unnecessary, perhaps you might like to make a statement on that point?—I do not think that it has been very much criticised, but I think that the considerations relating to it are these. When the Secretary of State has no great immediate necessity for selling bills, I mean when he has sold in the year up to his requirements for that part of the year, he need not and he does not sell below 1s 4d, and in the last two or three years it has been a very exceptional thing to sell below 1s 4d, but, of course, there are times when it is very desirable that he should get home from India the money that he requires for his expenditure here, and it would be undesirable to set up very restrictive rules which might prevent him from selling bills to the extent that he needed. So he allows himself, and I think he ought to allow himself some latitude, and the only serious question is, I think, whether you can define with any scientific precision what the latitude should be, so as not to leave it too much to the uncontrolled discretion of the Secretary of State. Really, I think you can define it with the utmost precision. The proper rule, I think, is that he should sell at such a price that it is more profitable to him to sell at that price than to take the possible alternative course of bringing gold home from India. If he bought sovereigns at the rate of 1s 4d for each rupee and then brought them home from India, paying about  $\frac{1}{4}$ d for the cost of freight and so on, he would get for each rupee about 1s 3 $\frac{1}{2}$ d net. What he actually does is never to sell cheaper than 1s 3 $\frac{1}{2}$ d, so he allows himself no undue latitude, and it cannot be said that in any sense he is depreciating the rupee by selling at that price when his general circumstances make it desirable that he should get money home.

171 Throughout your evidence at the last meeting you rather implied that the Secretaries of State could not have borrowed more money than they did during the last few years, and that it was only, I think, owing to heavy surpluses that the necessary funds were provided for the development of the country. Of course, it is obvious that you cannot continue to count on these windfalls?—Quite so.

172 And the question therefore, of raising more money by loan is becoming urgent?—Yes.

173 Have you considered the question of raising your interest to 4 per cent, because apparently it is impossible for you to raise more at present rates?—In a certain sense we have raised our rate of interest to more than 4 per cent. The latest issue that we made was an issue of Guaranteed Debenture Stock of the Madras and Southern Mahratta Railway which was to all intents and purposes a Government issue. The nominal rate of interest was 4 per cent,

and the issue price to the public was 99, so that we paid a trifle over 4 per cent there. If you wish me to say anything generally on that subject all I can say is this. The Secretary of State has for years been recognising that year by year he must pay a little more interest on the money that he borrows than he used to pay, and that it is to the advantage of India that he should not restrict his borrowing unduly in order to avoid this slight increase in the rate of interest. But what he has felt, and it is really the most difficult and important branch of Indian finance, is that he must not be too forward to borrow great sums so as to make the value of his stock go down with great rapidity or to make the rate of interest go up with too great rapidity—the two things come to the same, because if he did so, I am afraid he would make his stock so extraordinarily unpopular with people who have bought it at one price and found it has gone down 10, 20, or 30 points, that he would not really increase the supply of capital in India. If you go on following that path long enough and steadily enough, you may find yourself the object almost of a boycott.

174 The only thing is that the sterling price of Indian securities just returns about 4 per cent, or slightly under now, does it not?—Yes.

175 So present stocks would not be depreciated if you issued a new stock at 4 per cent?—Of course, you have banking authorities here. I should say, to take a rather big case, supposing we issued a 10 million loan on the 4 per cent basis, you would see in the news papers for several days, "India Stocks were very easy", and if one did it two or three years in succession, India stocks would be very easy indeed.

176 I only brought it to your attention because this is one of the great needs—to secure money for the development of India?—Yes, I cordially agree with you. The difficulties are very great, and we never overlook them in the India Office, and we are quite with you that it is one of the great needs of India to get money for development.

177 You were saying in your evidence at the last sitting that the Secretary of State in selling his bills was careful not to hinder the net absorption of gold by the people. Referring to paragraph 40 of Appendix I it seems to me that you have there estimated the probable consumption for the future almost entirely on the basis of the past. You have taken an average of the past. Do you think that is a correct way?—You must not, please, attach too much importance in the way of precision to those few lines at the end of my memorandum. What I wanted to bring out, and what the figures do bring out, is that there is a very large stock of gold in the Government Treasuries in India at the disposal of the public if they care to have it. I said that this sum of round about 20 millions is a 2 $\frac{1}{2}$  years' supply on the basis of the average for four years. Supposing that one disregards

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Mr LIONEL ABRAHAM, C B

[Continued

that altogether, and says that on the basis of the demand in 1912-3 we had at the end of the year considerably over 1½ years' supply, that would be equally effective for the particular purpose for which I made the statement, and it would meet your criticism.

178 I suppose the India Office would agree that one must not run that too fine, you do not want to prevent gold from going to the people, do you?—You do not want to prevent that. The India Office has always been anxious that among other things it should facilitate the sending of gold to India so that the people who want it may get it. But I would say this—that other needs are greater and more important than the supply of gold for use as currency in India, I mean, supposing there were a conflict between that interest and the other interest of having money here to be spent on railway capital purposes, I should say that so far as there was a conflict the latter ought to prevail.

179 In paragraph 30 (2) of Appendix I you state that the restriction of the sale of Council Bills and the consequent export of gold would adversely affect the balance of trade, perhaps you will explain how that would happen?—What I specially had in mind was that, if great amounts of gold were taken out of the Bank of England and off the London money market with the effect of stiffening up rates here and creating a stringency—perhaps even more than a stringency—I do think that Indian trade would be injured in a number of ways. To take one very obvious method in which it might be injured. When the Indian exchange banks had their bills to discount in London, which you know is one of their ways of supplying funds for themselves, if they found they had to discount at 7 per cent. instead of 5 per cent., they would be less willing to discount and less eager to buy export bills in India and less eager to use their money in India for trade purposes generally, and there would be what I may call an application of the brake to the wheels of Indian trade generally. I think that what I say is in no way paradoxical, and I think most people would hold that that is the case.

180 It is so, of course, but it does make Indian trade rather dependent on the convenience of the London money market?—In a sense, but not in the invidious sense. I should say rather that Indian trade depends, among other things, on the convenience of the customers of the Indian merchant. You may regard Great Britain as one of the great customers of the Indian merchant, and if you do something which rather hinders the customer you rather hinder the seller as well.

181 I do not suppose our other Colonies take such an interest in matters of that sort, do they? You are guarding commerce here rather too much. There is one other thing I should like you to answer. In your evidence I rather gathered that you are against lending surplus funds to the Presidency banks in India, is that so?—I did not wish to give that impression. I always feel that there is so much to be said on both sides that I can be more helpful, at least, I hope I could be more helpful to the Commission by putting before them the facts and the considerations on both sides than by giving an opinion of my own. My own personal prepossession is in favour of the Government being rather liberal in this matter, and I feel very much, when you have, say, 20 crores locked up in the Government Treasuries in Bombay and Calcutta, and then in Bombay and Calcutta there is a bank rate prevailing of 8 per cent or 9 per cent, and a difficulty in getting accommodation even at that rate, that it is not quite easy to put in a perfectly satisfactory defence of the holding up of these large sums of money. On the other hand, I recognise the difficulties which the Government have always felt about largely increasing their deposits with the Presidency banks.

182 I think I understood you to say that you were preparing a statement for this Commission on the subject of State banks?—That is so.

183. In doing that, would you kindly mention what economies you expect the Government of India to make

in the way of their own establishment and so on when they hand this work over?—I will mention that. As a matter of fact, I do not think there will be any economy in that particular respect. I shall probably take the advantage myself of consulting Mr Gillan on the subject before I write my note, but I do not think there will be much in it.

184 (Mr Gladstone) Lord Faber, I think, made some reference to the Government accounts with the Presidency banks, and as to there being no security, it is a fact, is it not, that there are special restrictions and safeguards as to the working of the Presidency banks under special Acts?—Yes, and one might almost say rather onerous restrictions. I do not know whether any member of the Commission would like to go through that with me. I did not put it in my statement because I did not want to make it too long, but of course the Commission can have copies of the Presidency Banks Acts—we have numerous copies in the office; and if Mr Brunyate's memorandum\* is circulated also, then you will see what those restrictions are. I may say that among some papers which the Chairman said he would like to have are some papers regarding a discussion as to the removal of one particular set of restrictions—the restrictions on dealing in foreign exchanges.

185 (Chairman) Will you put in a paper to show us what the character of those restrictions is?—Yes.

186 And also Mr Brunyate's memorandum which you spoke of?—Yes, I assume you would like at least those two circulated, but I suppose you would scarcely want copies of the actual Acts, because there is so much that is mere machinery set forth in them.

187 It would be more convenient for the Commission if somebody under your directions would extract what is essential for us instead of giving us the whole of the Acts?—That shall be done.

188 (Mr Gladstone) Is it not the case that the banks in return for the Government accounts do much work for the Government in connection with the Treasuries and other things for nominal remuneration?—Yes, in fact I should put it this way—that the advantages which the Presidency banks get are partly, not entirely, to be regarded as remuneration for work done.

189 (Lord Faber) The figures that you were good enough to set out showed to me as a banker that the banks are well paid, in fact better paid than some of the banks in London?—May I just interpolate this? The view that has always been taken by the Presidency banks is that the advantages which they get are partly remuneration for the work they do, and partly—if I may go back to an ancient controversy—compensation for the withdrawal from them in the '60's of the right to have a note issue.

190 (Mr Gladstone) In a lesser degree, a much lesser degree, the Presidency banks act in India in relation to the Government of India as the Bank of England does to the Government here, for instance, they attend to the Public Debt?—Yes.

191 And they receive special remuneration for that?—Yes. As far as I can judge, I should think they are fairly well paid for managing the Public Debt. I do not know whether Sir James Begbie would agree, but there is a special section of their remuneration for that specific work.

192 (Sir James Begbie) That is not included in the figures you have given, I think?—No, because I did not think that had much bearing on the particular subject of my memorandum.

193 (Mr Gladstone) My question was really asked in order to draw attention to the status of the banks, which is something different to that of ordinary banks?—Certainly.

194. They are more on the status of the Bank of England than on that of any other bank?—Yes. They are the trusted and valuable agents of the Government for very important purposes. That is your main point, I think?

\* An account of the Presidency Banks, published by the Government Press, Calcutta, 1900.

† See Appendix XIII., page 335.

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[Continued

195 Yes With regard to the State Bank I understand there have been two propositions, one is the amalgamation and strengthening of the three existing Presidency banks to be carried on very much on the same lines as at present, and another proposal that has been put forward is that the State Bank should have a London office, and I understand that the London office of that State Bank would do a great deal of the work that the India Office now does?—Perhaps I ought to guard myself in this way When the subject was discussed about 14 years ago the view then taken was that it would be possible perhaps merely to amalgamate the three banks and do nothing further, and it was to some extent on that basis that the discussion proceeded Speaking quite as an individual and not speaking for the Secretary of State I have been thinking over it a good deal of late, and the more I think over it the less I feel that any scheme which was a mere amalgamation of the three banks would be practical I fancy that when once the amalgamation came under discussion a further extension of the scheme would probably have to be considered, and would be held by many people to be an integral and necessary part of it It is only, I think, in that sense that you can say that there is a scheme for extending the original plan

196 You would recognise, for instance, that the exchange banks would be likely to object very strongly to the Government Bank being allowed to do exchange business, and therefore I assume there would be less opposition to the amalgamation and strengthening of the three Presidency banks on existing lines than there would be to the other proposal?—Yes I think it is fair to say that there are many ways in which a State Bank would do exchange business Of course the widest way and the way that the existing exchange banks would most object to would be if the State Bank bought export bills in order to get money in London, and then bought import bills in order to send money back again, and then really went in for exchange business in a very large way But it is equally possible for a State Bank, if constituted, to do very much what the Secretary of State now does, that is to say, merely to sell remittances on India, bills of exchange on India, to be met from their own funds and to sell them by competition in the same way as we sell Council Bills to the exchange banks now

197 With regard to the loans given out in London by the Secretary of State, I understand that in the first instance loans are made to approved names against security?—Yes

198 And that recently it was only when that power was exhausted that large deposits were put with the London joint stock banks without security?—Yes, as a temporary measure It was always understood as being temporary

199 Of course you are aware that in the City of London it is quite common for banks and private individuals to put very large sums, hundreds of thousands of pounds, on deposit with the joint stock banks without security?—Yes I think the instances to the contrary are very few Lord Faber, I think, quoted one on Tuesday I do not think there are many cases in which a bank would give security, I mean, it would say we have depositors for many millions of pounds and we cannot allow a particular depositor merely because he has a little more than other people to have a specially secured and preferential position That is their reasoned ground of opposition, I think

200 Very often there is a difference in the rate of interest if security is given?—Do you imply that security is often given?

201 No, I do not wish to do that?—I should say that generally security is not given

202 I quite agree Some reference has been made to the decline in Indian credit I have a few figures here from the Stock Exchange Official Intelligence which are very short, and which I think it is rather important to bring out I am sure you realise that whilst the fall in sterling 8½ per cent India Stock from the top of the wave in 1896 to the present date is 32 points roundly, or 26 per cent, the fall for the enfaced 3½ per cent rupee paper for the same period is only 2½ per cent?—I have not those exact figures, but of course I am familiar with and very

much interested in the fact that rupee paper has not fallen to anything like the extent as India sterling stock

203 Whilst the 3½ per cent sterling Indian Loan in 1896 returned on the highest price of the year 2 87, and at that time enfaced rupee paper returned 3 53, the figures now are Indian sterling 3½ per cent Loan 3 98 and enfaced rupee paper 3 73 So instead of its being at the present moment more expensive to borrow in India than in England, as it used to be, it is much cheaper on those figures to borrow in India?—Quite so

204 Of course, I recognise that India is looked upon as a limited market, but I would suggest that the market is less limited than it was, that the country has had prosperous years, that there is less hoarding now than there used to be, and that the natives generally are more inclined to invest in Government securities?—I think what you say is very valuable, and you will readily understand that it is a matter which is frequently discussed between the Secretary of State and the Government of India You will notice in one of our papers there is a sentence containing a good deal of very sound doctrine The Secretary of State said on one occasion to the Government of India, you must accept my views about what loans can be issued in England, and I am very much inclined to accept your views about what loans can be issued in India That doctrine has a good deal of application to the facts that you were just mentioning

205 With regard to the decline in Indian credit, may I point out that, taking the top of the wave again—1896—whilst Consols have fallen 38 points, or 34 per cent, and, as an instance of a gilt edged security, London and North Western Railway 3 per cent debentures have in the same period fallen 45 points, or 36 per cent, India 3½ per cent sterling stock has only fallen 22 points, or 26 per cent That does not seem to show that there is any decline in the credit of India other than what may be due to general market conditions?—

As I said to Lord Faber at the last meeting I am the last person in the world to controvert any optimistic proposition of that sort, but the sort of fact that I have been in the habit of noticing is this You remember I said to Lord Faber that India stock used to be about half way between Local Loans stock and County Council stock of the same denomination—they were all 3 per cent stocks in those days There was usually for some reason a difference of about 10 points between Local Loans and London County Council stock, and then India was 5 points below the one and 5 points above the other Now India has gone down I am sorry to say, to about the County Council level I took that comparison merely because those three stocks are more of the same sort, they are more, to put it technically, in the same market than perhaps some of those that you quote

206 I think I ought perhaps to say that I did leave out the County Council stock, where the fall has not been so great as it has been in railway debentures, but I do not see that you can take a better guide than the best gilt edged railway debentures, as they are not open to the same considerations which affect Consols?—I think as regards what is in your mind we are very much at one I gather that you wish to emphasise that we ought not to be too much afraid of borrowing, that we ought not to be too much depressed by the fall in our stocks, and that we ought not to check India's development for those reasons I am quite with you there

207 (Lord Kilbracken) The expression "declining credit" has been used of India, do you accept that expression?—No, I am very glad you intervened It is a phrase that people use, but I would much rather speak in plain simple language of the fall in the price of India stock I did not like to call attention to it, because there were other things

208 (Mr Gladstone) That is what I really wished to bring out On the question of loans from the Government of India to the Presidency banks, on which Sir Ernest Cable has put one or two questions you have informed us that the Presidency banks have

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[Continued

made no requests for loans during the last seven years, and you assume, and I agree with you, that this is because interest at Bank rate was demanded against loans on security by the Government?—That it would have been demanded?

209 Presumably I would submit that the Presidency banks do not care to borrow to lend again on the best gilt edged security without any margin to themselves?—I think that is a very fair point, if I may answer your question in that way. You have not forgotten that passage which I read from the Bank of Bengal's letter, where the Bank of Bengal said that they do not want any profit and merely wish to seek the convenience of the Indian money market (paragraph 15 (1) of Appendix I, page 4).

210 I had forgotten that at the moment, but still I can see that would not be business, and they are accustomed to lend as freely as they possibly can at bank rate almost to any extent against Government securities?—Yes.

211 If they asked a higher rate—I am speaking from positive experience as far as the Bank of Bengal is concerned—I think it would be very much remarked on, therefore they are practically limited to asking the bank rate on securities of that kind?—I dare say it is as you say, that if the Government had made a difference of 1 per cent in the rate on which they lent to the Presidency banks, the Presidency banks would have been much keener on taking loans.

212 Do you not think, if it is decided to grant such loans under special conditions, that 1 per cent below the bank rate might be granted in order to make the relief effective?—That sounds *prima facie* reasonable, but if we were discussing that in the India Office our first step would be to ascertain the opinion of the Government of India, and anything that I say is subject to what the Government of India would think on such a matter.

213 It is admitted that times of pressure for money constantly occur in India, and usually at the same period of the year, when exports are most active, and when it so happens that the Treasury balances are at their maximum. That is set forth, I think, on pages 40 and 52 of Appendix II?—I do not know whether the pressure comes most when the export trade is most active, or just before the time of its greatest activity.

214 It has been suggested that at such times of pressure, when Government resources admit, loans on interest against security might be made to the Presidency banks from the Paper Currency Reserve?—That was suggested in about 1899 or 1900, I think it was, by the Bank of Bengal, and it was supported by the Bank of Madras. I ventured to make some observations on it in my memorandum.

215 I gather that you personally would favour this course with the qualification, if the strength of the banks is held to be sufficient to justify such loans?—Yes. I should like to repeat here, if I do not repeat it too often that that does not come from the Secretary of State, but that it comes from me, and you must not regard it as authoritative. The obvious advantage, which, of course, you see, is that it is a much more stable and trustworthy fund from which loans can be given.

216 Might not any risk to Government be provided against by maintaining an effective margin, perhaps as much as 5 per cent. between the amount of the loans and the market value of the security?—Of course that guards you against loss, but it does not guard you against the risk of not getting back your money at the right moment, which is often just as important. To have your money tied up in securities which are sure to be worth their value three months hence, when you want your money to-morrow, is not always a satisfactory position.

217 On the question of the strength of the Presidency banks, I understand that the India Office lends freely when it suits them to exchange banks in London against security?—Yes.

218 Presumably, therefore, these banks in India, and all the more the Presidency banks, are strong enough to justify such loans against security?—I have mentioned in paragraph 17 (3) of Appendix I that Sir Guy Fleetwood Wilson had a discussion

with the exchange banks as to whether they would like to borrow money from the Government of India. They said—this was the impression made on his mind—that they were not keen on it. The explanation is in a sense fairly simple—that, if they can borrow in London from the Secretary of State at London rates, which might be, say, 3½ per cent, they would not be much attracted by the idea of borrowing the same amount of money in India at Indian rates, or 6 per cent. I do not know if that is the only explanation, but it seems to me a very plausible one.

219 My question was meant to show that the standing and the strength of the Presidency banks in India at the present moment is such as to justify loans against security on special occasions?—Yes. Of course you have to bear in mind that it is a question, not of loans, but of additional loans. If you have deposited two millions with a particular bank, and it is a very strong bank, then the question of depositing a third million is not quite the same as if it were a question of depositing the first million.

220 I quite follow that. I would like to ask you a few questions now on the Treasury balances in India. We have before us the Government of India's resolution of January 19, 1876, as to the management and economising of the Treasury balances (page 35, Appendix II), we also have Sir James Westland's memorandum of November 20, 1888, sent in the Government of India's letter to the Bombay Chamber of Commerce of January 12, 1889 (pp 42-7 of Appendix II). Are there any such later resolutions and reports to guide us as to the system and what is being done at the present time?—I refer to the detailed working of the treasuries?—For a couple of years I think the Comptroller-General—probably Mr Gillan was Comptroller-General at the time—issued a summary of the resource operations of the Government of India and the management of balances during the year, and some sort of information on that subject is given in the annual report of the Paper Currency Department. I do not think that you would have anything else in so general a form.

221 (Mr Gillan) That is only an annual report of course. There is a manual of the Comptroller-General's office which, as far as I know, contains the latest resumé of instructions on the points that Mr Gladstone is asking you about. I do not know whether that is available here or not?—I am not sure, but I will see.

222 (Mr Gladstone) What I should like, if possible, would be, not a mere resumé, but something to enable an expert like Sir James Begbie, for instance, to look into the actual daily working of the treasuries. I do not see how we are to form any independent opinion as to the balances in India unless we are made aware of the exact daily conditions, say, in one or two representative treasuries, large and small, and of the practice, but perhaps that is a question which ought to be asked of the Indian witnesses?—I think so.

223 I would like to ask whether you do not consider that the general conditions have greatly changed in India during the last 25 years?—They have enormously changed. For one thing you will notice that the proportion of private deposits to Government deposits in the Presidency banks has gone up very greatly. I would not say that makes all this doctrine of 1874 and 1876 obsolete, but at any rate it has taken away some of its applicability.

224 I think you referred to the balances which Sir James Westland named of 8 crores, and stated that the assumption was that nothing of that kind could be faced now with the increased revenues, and so on, and the responsibilities of the Government. With the enormous extensions of railways and telegraphs and wireless, could not greater economy be exercised by more direct central control of the treasuries and daily returns of receipt and expenditure by wire, much as traffic over a long length of railway is directed from one central point always by wire?—I should say that

\* Office Manual of the Comptroller-General, published by the office of the Superintendent of Government Printing Calcutta, 1900.

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is a question whether the Comptroller-General from time to time does his work with the greatest amount of efficiency. Quite apart from the fact that a late Comptroller General is here, I have always thought that that kind of work, what they call in India resource work, that is, the work of putting Government money where it is wanted, is extremely well done so far as I can judge from such limited information on the subject as reaches the India Office.

225 I think you are aware that, apart from those who have special knowledge of India, our highest financial authorities are inclined to doubt whether these large balances in India are necessary?—If you are speaking of such balances as were held on March 31, 1913, in India, which were exceptionally high, owing to a number of causes with which you are familiar, then there is no doubt those balances were unnecessary.

226 I quite follow that the conditions were exceptional with regard to those, but I refer more to the ordinary balances which I understand are 12 or 14 crores, or something of that kind?—I should say that on March 31 in a normal year the balances in India would be about 18 crores.

227 The total Treasury balances?—The total Treasury balances, including the amounts held on behalf of the treasuries in the Presidency banks, would be between 18 and 19 crores on March 31. I would like to say, if I may, that it is very difficult for an eminent English financier to give a valuable opinion as to the exact amount that ought to be held in Indian Government treasuries at any time.

228 I entirely agree with that, and I do not know that they would go so far as to give opinions, they would not without studying the conditions. I only meant that at first sight they find it difficult to understand how it can be necessary under modern conditions to keep these enormous balances in India. I am really referring to the average balances, and I am not dealing so much with what you end up with on March 31?—You will notice that in Statement C in Appendix II on page 76, the figures are given for four quarterly dates in certain years. One can give that information month by month or for a larger number of years if you wish.

229 I am satisfied with that information, but I should like to see what I consider those large balances justified by a closer examination into, as I said, the weekly and daily working of representative treasuries?—I think you must fall back on the Indian witnesses for that.

230 You mentioned, I think, that the disposal of the Council bills might possibly be done under better conditions by a bank than by the Government?—Did I say under better conditions? As well, I ought to have said.

231 Then as well, for a reason which you explained is not this important branch absolutely bound up with the question of the Treasury balances in India, the Paper Currency Reserve, and the gold standard—it all forms part of the same problem?—I would answer that question in the affirmative, but as regards our inferences from it, I am not sure that we should agree. I gather that your inference is that it must remain a piece of Government business as distinct from a bank business. My inference would be that if you do hand over to a very large extent the Government balances in India to a bank, that same bank in its English branch would have to have something to do with the selling of remittances, merely because, as you say, the two branches of business are so closely allied.

232 Do you consider that any unofficial institution could deal as effectively with these very large questions as the Government?—No. I thought I was rather careful to say, when I committed myself to the view that I rather liked, in some aspects, the idea of a great State bank, that it would have to be very much under Government control, or at any rate working in such close co-operation with the Government that it would amount to Government control, and as far as I can tell, unless that condition were satisfied, the scheme would be impossible.

233 Might I ask as a last question, whether it is not your belief that the present system on the whole

satisfies the interests of the public best, and are not those trading with India generally of this opinion?—I might almost say that modesty forbids me to answer that in the affirmative. I think I might say that the public ought to be well satisfied, but if you would allow me, I should like to give you the result, very briefly, of the inquiry that we made on the subject. Some time ago the Secretary of State asked the Government of India, among other things, whether they had received representations in India against the present system of selling Council bills, and so on, especially representations in favour of restricting them, which you know is the chief measure which has been suggested. The Government of India said, with regard to the restriction of Council bills, it has always been urged by Mr Webb—whose name I expect is familiar to you—that they should be limited to the amount required to meet your home charges, and he made certain representations, which they rehearse. So far as we can trace, no other representations on this subject have been made within the period mentioned by the Secretary of State—that was 10 years. They say in the passage which I think I have already read, that they think, though improvements may from time to time be made, the practice, in their opinion, is generally sound. So I think you are right in saying, and I am grateful to you for bringing it out, that in spite of the strong remarks that one has occasionally seen in the newspapers, the present system is regarded with general satisfaction. I think that if you put those kind of questions to the representatives of the Chambers of Commerce in India, who will doubtless come here, you will get a similar answer.

234 (Mr Keynes) You have given as one of the reasons for the high level to which the balances reach from time to time the difficulty of accurately budgeting in a country subject to such conditions as exist in India, and in paragraph 24 (1) of Appendix I you point out that in March, when the Budget is prepared, it is particularly difficult to know accurately what revenue can be expected. Has it ever been considered whether that could be partially remedied by removing the end of the financial year, say, to September, when the season which would be covered by the year being budgeted for could be more easily forecasted?—There are some questions which are always being considered at intervals of 10 years or so in India, and the question of altering the financial year you will find was considered in 1864, by the Select Committee of 1873, by Lord Welby's Royal Commission of 1895, and so on. I think it has been considered, not with reference to a September-August year, but with reference to a calendar year. If it were a calendar year, I think, from the purely Budget point of view, it would be a better year, because you would start your Budget in January and you would know pretty well where you were until, say, June or July, by which time, if the monsoon were going to give trouble, it would begin to do so. So that you would have six or seven months of certainty, or comparative certainty, and then five or six months of uncertainty, whereas at present you budget from April, and you have only three months of comparative certainty and nine months of comparative uncertainty. Therefore, from the purely Budget point of view I think a change would be advantageous. But—and I have often discussed it with colleagues of mine with great experience of India—it would throw out the administrative work of all sorts of departments in the Government of India and in the provincial governments so seriously that I think it is a change that is not likely to be made, in spite of the Budget advantage that it might possess.

235 I can quite understand that the change would be very troublesome, but you are saying in effect that if the change were once made it would be an advantage to the Budget, and your argument against it is the difficulty of making the change?—No, I am not saying that. I oppose it on stronger ground. Let me put it in a more definite way. Supposing that one had a January-to-December year, which would seem to be the natural alternative to an April to March year, then the Budget work would have to be prepared, and a good deal of other work would have to be done in government offices probably in November and December before the Budget came on. Now, many



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colleagues of mine with Indian experience say that it is most important that high officers of one sort and another should be able to tour about India, or tour about their provinces, in the months of November and December because they are the best months in the year for that open air and itinerant work. Of course here I speak subject to correction from those with Indian experience, but I think that is a serious obstacle.

236 In the case of the September to - August year, what would your feeling be about that?—I had not thought over it and I do not really like to say without thinking. Perhaps if there is another opportunity you might ask me later.

237 But you would agree that from the point of view of accurate budgeting March is almost the worst month you could take?—Yes, I think you are right. The worst month you could take, I suppose, would be May, but roughly what you say is correct, I think.

238 I do not know whether this is to the point at all, but in paragraph 30 (4) of Appendix I you point out that the capital transactions in England are apt to occur immediately after the end of the financial year, and therefore the closing balances at the end of March give a misleading appearance because they omit to take account of the pending capital transactions?—That is so. Another thing they may do, which has caused much more misunderstanding, is that if one has raised a loan, say, a week before the end of March, then in a series of annual figures showing the balance on March 31 you see against that particular year a very high balance, and the reader does not realise that it is an accidentally high balance.

239 Therefore from the point of view of tidy account keeping, March is an inconvenient time of the year from the point of view of the India Office?—From some points of view it is, and also you might say that it is really in the middle of a critical period of the year when changes may take place in very large amounts in one week.

240 The next point I wish to ask is in connection with a question raised by Sir Robert Chalmers about the connection between the Indian and London money markets. You rather suggested in your reply, I think, that the connection was not close, and I suppose everybody would agree that there was no mathematical connection and that the rate of money in India was determined by many other things in addition to the London bank rate?—Yes.

241 Would you not say that when there is considerable pressure in India the extent to which remittances are sent there depends upon the London bank rate?—I think they are affected to some extent by the London bank rate, but the point which I am not sure whether Sir Robert Chalmers had in mind, and I am not sure whether you have in mind, is this— they are rather two points. In the first place, pressure may come in India through causes which are not likely to be relieved by the sale of Council bills. One so often thinks that the sale of Council bills is the natural way of relieving stringency in the Indian money market. So far as the stringency is due to great demands for the steadily progressive export trade, I have no doubt that the common view is correct, but the stringency may be due to this kind of thing, a firm buys jute, for example, on borrowed money from the Bank of Bengal, or cotton on money borrowed from the Bank of Bombay, and is not able to pay back the loans it has taken from the bank until it has sold its finished article. Supposing that either the manufacturer is holding out for high prices, or the purchaser in Japan or the Argentine is rather slow in coming forward, the period over which such loans extend, that is to say, the period until the actual sale for export is made, may be prolonged to an unusual extent. That causes a certain amount of stringency, and so long as it goes on it is very difficult to see how it can be relieved by the sale of Council bills, because no export bills are created against the export until the export is actually arranged for. I hope I have not been too technical, but I think that is one reason against assuming that when there is a stringency in India it is likely to be relieved soon from London.

Then there is another fact which perhaps you are not aware of. Of course you are aware that the exchange banks do, as far as I can tell, a certain amount of business in the way of importing capital for banking purposes, but they do not do very much, as I gather, of such business, and the Presidency banks are not allowed—they have been asking for many years to be allowed—to import capital to be used temporarily for banking purposes, the Secretary of State never having seen his way to grant that permission. No doubt you will be much interested in the papers on the subject that you will see. That restriction no doubt has a good deal to do with preventing banking money from being imported into India at the moment of stringency, and therefore it prevents this equalisation, or this approximation, that you might expect between the London and the Indian bank rates.

242 (Chairman) What do you mean by saying that the Presidency banks are not allowed to import capital into India for banking purposes?—Perhaps I might put it in this way, I will not take you through the clauses, because that would make it rather long. The Presidency banks came into existence in India, they raise their capital in India, they buy stocks, and so on, in India, and they may raise further moneys in certain ways, all in India. From time to time they have said to the Government of India "Supposing that we could take a certain portion of our securities and pledge them as security for loans, say from the Bank of England, or from some great English banking institution"—I will not go into the technicalities of it—"we should be able temporarily to increase the capital that we are able to lend to our customers in India." You will see from the papers\* that are going to be given to the Commission that the Secretary of State has always, for quite a number of reasons, objected to that change, so the Presidency banks are, as it were, closed up in India, and have no access to any country outside, except Ceylon, which is inconsiderable.

243 What the Secretary of State has objected to is the removal of the securities held by the bank from India to London, and their being pledged in London, is that so?—He has objected to the Presidency banks borrowing in London from a London lender.

244 (Sir Robert Chalmers) Is that only as regards the Bank of England? Is it not open to the Presidency banks to receive deposits in London?—No, in fact, I may say that the Presidency banks have never asked to be allowed to do that. That would really change their character very completely.

245 (Mr. Gladstone) Would not the answer be that the Presidency banks must not compete in exchange operations, and they are prohibited from doing so?—That is rather a gloss on my meaning.

246. (Sir James Bagot) They are not allowed to borrow in London independent of the exchange business?—I will tell you why I should not accept Mr Gladstone's gloss on what I said, if I may. You will find from the papers\* when they are submitted to you, that the Presidency banks have always said, and I am quite sure *bona fide*, that they do not wish to compete with the exchange banks in exchange business, they merely want to borrow in London in order to relieve the Indian money markets.

247 (Mr. Keynes) To come back to the point from which we began, it is the case, is it not, that the exchange banks lend a great deal of money in India on loans or advances, and do not engage all their funds in foreign bills?—No doubt when they have money in India they do that. I hope you will ask the representatives of the exchange banks whether it is their habit to send out money to India in order to be employed in that way.

248. My point rather is this, that the effective rate for money in London determines how much it is worth while for the exchange banks to expend on the purchase of Council bills; those Council bills put them in funds in India, and I should not suppose that they would make up their minds until the last moment whether it would be most profitable to use those funds that they get in India in buying more foreign bills which could

\* See Appendix XV., page 338

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be discounted in London, or in making direct advances, and I should be surprised, therefore, if the rate at which business in bills could be done were very different from the rate at which advances would be made on a similar sort of security. I would like to know if you are intending to deal with that in your answer?—My view about the way that the exchange banks do their business is, I think, rather different from yours. I think primarily the exchange bank regards it as its business to buy bills as cheap as it can, and then in due course to collect the money or to discount the bill at as favourable rates as it can. I should say that the exchange banks generally regard the loaning part of their business as very subsidiary. I believe it becomes more and more important, but I think even now it is still a subsidiary branch of their business.

249 Is it your opinion that the rate for bills in India might differ appreciably more than it does in England from the rate for advances on similar security and for similar periods of time?—I am inclined to think that it might, but it is so purely a technical question of the actual working of the particular set of banks that I think it would be well to ask the representatives of the banks.

250 Mr Gladstone, I think, drew attention to the remarks that you made in paragraph 17(3) of Appendix I, with regard to lending to exchange banks in India, and he pointed out that a good deal was already lent to them in London. I should like to know about how much that has been in recent years?—I have a statement here in case it is interesting to the Commission, but, if you will allow me, I will not read much of it because you cannot take in a great number of figures when they are merely read out. The important point is this. There are five exchange banks which borrow from the Secretary of State. I have had taken out for me the amount of the outstanding loans to each bank shown in the last weekly statement for each month in 1912-3, then we have added up the total and divided that by 12, which gives in a rough way the average amount of India Office money held by the exchange banks. Those averages for 1912-3 are the Chartered Bank of India, Australia, and China, 450,000l., the Eastern Bank, 70,000l., the Hong Kong and Shanghai Banking Corporation, 180,000l., the Mercantile Bank of India, 220,000l., the National Bank of India, 470,000l. The total of those five is 1,390,000l. Of course, you can have the information in much more detail.

251 What was the highest total, apart from the average, in any week?—The highest of these figures that I have before me is 1,900,000l. at the end of December 1912, but in weeks which do not happen to be the last week of a month there may have been higher figures.

252 The average, you say, was about 1,400,000l.?—That is right.

253 So that they get very large sums?—Yes, very.

254 Large in proportion to their resources in London?—I would not say in proportion to their resources, as they have very great resources. Still, there are the sums, and whether one calls them large or small is a matter of judgment.

255 If these funds were lent to the exchange banks in terms of rupees instead of in terms of sterling would it be possible to get a higher rate of interest, do you expect?—I do not know. I should have thought, but I speak with great diffidence of an institution like the Hong Kong and Shanghai Banking Corporation, that if it did not borrow money from the India Office it would borrow money from someone else in London on as good terms, or nearly as good terms. You see, they are very strong banks, and in good credit.

256 You would not say that in regard to this particular kind of loan the India Office was in a predominant position?—I do not think so. Of course, you have Lord Faber here who knows much more about banking than I do. The Eastern Bank, as you know, is rather a new one, but I should say that if one of these old established exchange banks, which have connections, some of them, all over the British Empire and beyond, wanted to borrow half a million or a quarter of a million of money in London, and could

not go to the India Office, they would probably have no difficulty in getting it somewhere else.

257 At substantially similar rates?—I should think so. Of course, I would not dogmatise, but that is my impression.

258 If this sum is lent them now in London against rupee paper, it would not be a very revolutionary thing for the Government to lend it them in India against similar security?—It would not be a revolutionary thing, but then you must regard it, please, from some different points of view. Just let me take a case to show where your argument, if I may call it an argument, that the two things are much the same, would rather break down. Supposing that the Secretary of State had been accumulating some money towards the end of March in order to pay his 5th April dividends, and he had lent it to these banks with the understanding that on the 3rd or 4th of April he will get it back from them and be able to use the money to pay his dividends, from the point of view of the Secretary of State it would be a very serious matter if that money, instead of being repayable to him at the Bank of England, at 4 p.m. on a certain day in April, were in India and repayable to the Comptroller General.

259 I did not mean to controvert that, I was thinking of a different point?—I was not sure whether you had noticed that. It is a very important point. From the point of view from which you have raised it, that it would not be a revolutionary departure, I quite agree with you.

260 I meant only that if the Government of India had the money to lend in India, then to lend it in this particular way would be nothing very new?—There I quite agree with you.

261 In paragraph 15 of Appendix I you quote a number of opinions that have been expressed by the Government of India from time to time, you will not perhaps endorse them, but I want to ask you how far those opinions related to lending money from what I might call the normal balances of the Government, and how far to lending money from amounts temporarily with them in excess of their normal requirements?—I quite agree with you that a sharp distinction ought to have been drawn, but whether the writers were scientific enough to draw such a sharp distinction in their own minds I do not know. I agree with you that there is a distinction in principle between the two kinds of loans but there is this common to the objections to both—that, whether you are discussing a system of regularly lending a crore or two crores, or whether you are discussing a system of occasionally lending a large sum when you have very large sums, the argument that the Government may have to withdraw its money at unexpected times applies to some extent.

262 I was thinking partly of this argument—for the Government to lend would be a disturbance to the supply of money in India, but at present if the Government does not lend it means a disturbance?—Yes. Of course, the general argument which, as you very truly say, applies to normal times, would have much less applicability to a time like the present, when the amount locked up in the Government Treasuries is unusually large.

263 You would not wish therefore, to endorse these opinions if they were taken to apply to abnormally high balances?—Certainly not.

264 When you were talking last time about the transfer of funds from India to London generally, you said that you were always willing to do it when there was a demand for Council bills, and when the Government of India had funds in hand, because it facilitates your operations in various ways that it should be possible for you to issue your loans at a convenient moment, and so forth?—Yes.

265 You did not mention among those advantages the general strengthening of your sterling position, that is to say, in addition to your cash balances in London it might be regarded as an aid to the paper currency reserve and the gold standard reserve. Would you say that was the case?—You mean, I suppose, that if there were a sudden fall in exchange

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the larger our balances at the moment the better would be our position for meeting such a fall, is that it?

266 Yes?—It is perfectly true that, the larger our sterling reserve is, the better is our position for meeting a fall in exchange, but if you are asking me about the actual practice, I should not think that the Secretary of State would ever increase his resources with that object in his mind—I mean he would be guided actually by many other considerations than that. Although, as you say, if incidentally the result that you mention occurred it would be an advantage, still it would only be incidentally.

267 In the crisis of 1907–8 he started with medium balances and he used them to a considerable extent, so that the London balances sank at one time to a very low point, that was the case, was it not?—Yes.

268 In the succeeding year the balances went up to an unusually high level?—Yes.

269 I should like to know if it was at all in the minds of those who were directing affairs that this raising of the balances would be putting them in a stronger position if there was an early recurrence of the difficulties that they had in 1907–8?—I think I can say very definitely that that was not in the minds of the people concerned. I would like to add this, so as to make the answer quite complete. After the recovery in exchange subsequent to the crisis we sold our Council bills rather freely for the purpose of building up again in London our gold standard reserve, which had been depleted, and that building up was naturally effected very largely by remittances from India. It is quite possible that during the interval between when we got the money home and when we invested it in securities for the gold standard reserve the balances were rather high.

270 Apart from the investment of the gold standard reserve, it was the fact that the accumulation of balances in the years 1909 to 1912 did have the effect of making your sterling position very much stronger?—Now you are speaking of the whole period. It did make the sterling position stronger, but I can say, because that question has been sometimes raised, there has been no policy of building up an exceptionally strong sterling position with that object in view.

271 That is what I wanted to know?—If you have read, as no doubt you have, the India Office Memorandum on India Office balances which was given to Parliament, you will recollect that what I say now is practically the whole theme of that memorandum.\*

272 Now as to the general principle of the Reserve Treasury system. So far as I know, there is only one other country that has anything similar, namely, the United States, and it is always made a criticism there that it upsets the money market by taking funds off it, sometimes at a moment of inconvenience, would you say that the Indian system is open to a general charge of that kind?—Yes, with considerable mitigations. I do not think the Indian system does it on so large a scale, or anything like so large a scale. I happened to be looking at some American statistics, I do not know how the United States authorities get the figures, but still they publish them officially. They show what proportion of the total money in the whole of the United States is held in Government Treasuries, in banks, and so on. I notice that they give these figures for June 30th of each year, and in one year they held 16 31 per cent. of the total money of the United States †.

273 Does that include the amount held against the gold certificates?—It includes the gold certificates, but not the gold that they hold against them.

274 It is the Treasury balances, is it?—They call it "Coin and other money in Treasury as assets." So 16 per cent. of all the money in the United States is shown in this return in that particular year as having been locked up in Government Treasuries. The percentages vary, that is the maximum, and the lowest that they give is rather under 9 per cent.

275 The important figure is the fluctuation?—Yes, the lowest percentage is 8 6, and the highest, as I say,

16 31, that is, the amount is twice as great at one period as at another. I merely mention that as showing that the Indian system is not as bad as that, but no doubt within limits it is open to the same criticism that is notoriously brought against the American.

276 I suppose that in March of this year something like 8 or 9 per cent. of all the money in India must have been in the Government Treasuries, and a few months previously perhaps 3 or 4 per cent.?—I will not try to work out the figures in my head.

277 There was a very large fluctuation?—Yes, there was.

278 Would you say that the stringency in Bombay and elsewhere this spring may have been partially due to the working of the Reserve Treasury system in India?—I suppose that it was, but I would not say that, if I may so express it, with any great enthusiasm, because the stringency of this year, as you see from the chart I have produced, was not appreciably greater than the stringency that has existed in many years when there has not been so large an accumulation of money in the Government Treasuries.

279 I did not mean that it was the only possible cause of the stringency, but whether in this particular instance it may not have been the cause, while there may have been other causes in other years?—I suppose it is clear that if less money had been in the Government Treasuries it is probable that there would have been rather less stringency, except that there is always the very difficult question, how far is the money that is locked up in Government Treasuries what is called money market money, or how far is the locking of it up a cause of the demand for advances from money market resources. There are so many different kinds of money—you are familiar, I am sure, with that point.

280 Would the first three months of 1913 have been a suitable occasion for lending money from the Treasury balances in India if any sort of different machinery from what there actually was had been in existence for doing it?—I could not conceive a more suitable period. Supposing the policy is adopted, the most suitable time is the one at which there is most money available, and I do not think there has ever been quite so much money available in the Government Treasuries in India as in the period that you mention.

281 I should like to go back to almost my first question and bring this in connection with that. One of the reasons why there was so much money in the Government Treasuries was because there was rather a low amount of Council bills sold, is not that so?—That accounted for it to some extent. I do not think it was a very serious cause. In one of Mr. Newmarch's papers you will see a comparison of the Council bills sold in that year and in a previous year.\* I do not think the sales were exceptionally low.

282 Are those figures available for February and March?—In February 1913, there were sold telegraphic transfers for 357 lakhs and bills for 63 lakhs. That adds up to 420 lakhs. That is less than in the previous year when the two together added up to 487 lakhs. Similarly in the months preceding the sales had been lower, but they had not been noticeably low. Shall I give you the figures for January?

283 I would like to have them for January?—In January 1913, the sales were bills, 255 lakhs, and transfers, 318 lakhs, that is 573 in all, whereas in January 1912, the bills were for 85 lakhs and the transfers for 645 lakhs.

284 That is to say in 1912 they totalled up to 730 lakhs, and in 1913 to 573?—Yes.

285 As you say, the difference is not very great, and the figure 573 is not a very large figure. Have you got the figures for March?—For March this year the bills were for 55 lakhs and the transfers for 177 lakhs, and for March of the preceding year 76 and 290 lakhs respectively.

286 So in the previous year there were 366 as against 232 this year?—Yes.

287 So they were about 50 per cent. higher in the preceding year?—The only point I am making is that

\* Cd 6619

† Report of the Comptroller of the Currency, Washington, 1912, p. 51

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they were not noticeably low. If you hold that the exceptional amounts in Government Treasuries in India were due to an exceptionally small sale of Council bills there I could not follow you.

288 As compared with the preceding year there was a difference of nearly 2,000,000*l.* in the first quarter of the year?—Yes.

289 Would you hold that the small demand for Council bills was due to the high effective rate for money in London?—I think, although I could not prove it, that the high rate in London does have some effect in diminishing the demand for Council bills. I think probably the exchange banks would operate generally with less freedom when they have to discount their sterling bills at rather onerous rates in London, but I do not think—and I am merely giving you my impression—that that is one of the most important of the causes. I think that what you may call general trade causes in India are much more important. In support of that I might mention, as shown in this chart, which I daresay you will be looking at later, at the end of 1912 and early in 1913 there was a 5 per cent bank rate in London, and in the previous year for the same sort of period a 4 per cent bank rate. The difference of 1 per cent would not account for any very great consequential differences.

290 That is the bank rate, and the bank rate differs in its effectiveness?—Yes.

291 That is the first point, and also that is the three months' bank rate in London, and it is not the three months' bank rate in India that you are talking of?—That is so. What I was answering at the moment rather was this—whether this small sale, this reduced sale of Council bills, was to be very largely attributed to a high Bank of England rate or rather, not to a high Bank of England rate—I do not wish to put it in that way—but to a high general money market rate in London. I should reply that I cannot say that the money market rate in London was a very important factor.

292 You think it was a factor, but not a very important one?—Yes.

293 (Mr Gillan.) I want to ask you first about the amount of our balances. The attacks that have been made on the Government from this point of view have chiefly been confined, have they not, to the home balances, that is, the balances held in the India Office?—Yes.

294 But the real point of importance is the aggregate balances?—Yes, that is a point which I may say the India Office has lost no opportunity of mentioning.

295 You say that the excess which has taken place in the aggregate balances has been due chiefly to two causes, first, to excess of actuals over estimates in the revenue account, and, secondly, to short spending on railways?—Yes.

296 Now about this short spending on capital account, it has been due chiefly, has it not, to non-compliance with home indents, or rather it has taken place in the English part of the expenditure?—It has varied a good deal. It does not entirely answer to what you say. Would you mind looking at statement A, page 70, where you will see the figures for 1910-1. In that particular year you will see it was mostly Indian, I do not know the explanation, but as you say, in other years it has very largely taken place in this country. In 1909-10, for example, the under spending was mainly in this country, and also in 1911-2.

297 I do not want to go unnecessarily into technical points, but there was one difficulty, was there not, about the amount of indents that the audit officer was allowed to certify?—Yes. What we have done, as of course you know, is to allow indents to be certified in advance up to a very considerable sum—I think it is now about four millions.

298 I merely want to make it plain that that particular point has been considered and dealt with?—It has.

299 In the year 1912-3 I think as a matter of fact there was not a lapse, or very little lapse?—Yes. That is partly due to the fact that an extra grant was made in the middle of the year. If you are bringing out that the Secretary of State and the Government

of India are doing from time to time what they can to prevent these lapses, then I am grateful to you for bringing that out, and, of course, my answer is in the affirmative—that they are doing what they can in that respect.

300 Another point in connection with the same capital expenditure. At present there really is only one year's programme for the railways?—Yes.

301 There used to be a three years' programme, did there not?—There were great ideas of a three years' programme, but I do not think they were ever more than ideas, but they had sometimes a delusive appearance of reality. Nowadays I think that very properly, since the Secretary of State cannot pledge himself for three years ahead, he does not even appear to do so. I think that is the extent of the change.

302 The point I wished to get at was that that does create a practical difficulty, does it not, considering that the railway programme is made up to December, and that they have to raise the expenditure on that programme in April?—Yes, and the difficulty is a great one. Not only, as you say, have various attempts been made to meet it, but I have no doubt that we shall go on making more attempts and getting nearer to a satisfactory system. That is what one may call one of the recurring questions of Indian administration.

303 Now about the revenue account and the estimates that have been made. I think you said that the excess in the opium revenue was not a matter of estimate, that is to say, the excess was definitely put aside as a matter of policy?—That is so. The excess, when it had occurred, was put aside as a matter of policy, and the disposal of it is shown very largely in that despatch of Lord Crewe's dated 23rd December 1910, that is given in Appendix II (pp 65-6).

304 The other head under which the excess chiefly occurred was what you call, I think, commercial?—That is so. If you look at Statement E in Appendix II page 81, you will get the particulars.

305 As a matter of fact, in the railways the revenue has changed, taking the last five years, by millions a year, one way and the other?—Yes, it has. It is extraordinarily difficult to estimate what the railways are going to earn.

306 It has sometimes dropped by millions, and it has sometimes risen by millions, as, for instance, in 1907-8 and 1908-9?—Yes, and when it rises it rises very high, and when it falls it falls with very serious effect. In 1908-9 the railways yielded between three million and four million pounds less than they were expected to yield.

307 That is a point I was coming to. In the last three or four years there have been huge surpluses, excess of actuals over estimates?—Yes.

308 But in 1908-9 there was a deficit of actuals as compared with estimates of three and three quarter millions, was there not?—I have not the actual figure before me, but I have no doubt you have got it right. It was about that.

309 What I want to bring out is that the estimates are not always necessarily wrong in one direction?—Of course not.

310 Which shows, as Mr Keynes has suggested in reference to the budget year, the extreme difficulty of budgeting at the present time?—Yes.

311 The fact is at present that the Finance Minister has to make a declaration before seeing his hand?—That is so.

312 And we at present cannot make a forecast of the coming year so much as an estimate of what is considered to be the normal?—It comes very largely to that.

313 That is what is always said in the financial statement?—Yes.

314 So that unless the year happens to be exactly a normal year your estimate is bound to be defeated—either to be in excess or in deficit?—That is so.

315 There is another point in connection with the same matter. The revenue estimates are a means to an end, are they not, in this way, that you use them to determine the scale of expenditure that is permissible?—Yes.

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316 That is what one is aiming at in making the Budget?—Yes, and when determining the amount of the loans, that is one of the things determined by the estimates.

317 Considering the fluctuations in the revenue, it is well, is it not, for the Government of India to be extremely cautious?—Yes, I think there are many administrative devices, which sometimes seem curious to anyone who is not familiar with these Indian difficulties, that are used in India, and are very admirably adapted for the purpose.

318 Will you say that in making the Indian Budget one has got to consider, not so much what we are likely to get, as what we can count on getting, and make sure of getting?—No, I do not think that you budget, as a rule, in such a pessimistic way as to reckon only on what you are quite sure of getting. I would rather say that you put down as your probable receipts, as you very well put it just now, what the receipts will be if the seasons and general conditions are normal, and that, of course, is a guess, and sometimes a hazardous guess.

319 In any case, with reference to a question that I think Sir Robert Chalmers put, the distribution of what we call the agreed surplus, that is, the surplus that we find we have at the end of the year, requires exactly the same sanction as proposals for the distribution of a surplus which we anticipate?—Yes. Formerly that was not so, but I think it is a great improvement that it is now as you say.

320 That is now the rule?—Yes.

321 One more point about balances. What I want to put to you is whether it does not really work as a sort of equalisation of the conditions of the finances of bad and good years, that is to say, if you have your revenue constantly varying it is impossible every few years to vary your taxation?—Quite so, I think you put it, if I may say so, extremely well, and I would, to bring out the full meaning of it, extend it a little. What one finds is that when one has a bad year then one has to borrow, to issue India bills, and so on, then after an interval a good year, or a series of good years, and then you pay off in the good times the debt that you incurred in order to meet the troubles of the bad times. Really you must expect this seesaw of good and bad years, of deficits and big surpluses, and except from the point of view of pedants and unpractical critics, I do not think there is much harm in these fluctuations.

322 You think it is permissible to keep something in hand in the good years?—As a rule, when you have a good year it has followed on a bad year, and you do not really keep it in hand, you use it in order to pay off some of the debts that your last bad season imposed upon you.

323 Practically that has been the effect of the last few surpluses, that you have paid off, you have got yourselves square and you have something practically, you might say, in hand for trouble when it comes?—Yes.

324 And you are in a stronger position because you have paid off all your floating loans?—Yes.

325 At the same time you have maintained, not an excessive, but a very steady railway programme for the last four or five years?—Yes. But for those surpluses, as Sir Ernest Cable was saying, it would have been an exceedingly difficult thing to maintain this railway programme, and to cut it down would have been very harmful to India.

326 About this change in the Budget date, is there any objection from the home point of view, that is to say, does it interfere seriously with other arrangements at home?—What sort of change were you thinking of?

327 Say to September or October?—You only have to think of Parliament. Supposing that Parliament is going to have an Indian Budget debate in July, you cannot then say what is going to be in the Budget that is to be introduced next September, so that you would have to recapitulate the Budget that was introduced last September. The House of Commons is very patient with regard to Indian affairs, but to listen to a long speech on a Budget which is nine months old, I think would overtax the patience

even of the House of Commons. As regards the India Office, of course, it does not matter, we can adapt ourselves.

328 (Chairman.) Perhaps the House of Commons would like to have the Indian Budget earlier in the year?—I was assuming that you would probably not have the Indian Budget earlier than, let us say, May, what with pressing home business, and so on, and even if in May you were discussing last September's Budget, you would feel that it was rather a wearisome business.

329 (Mr. Gillan.) But you would agree that if a change were possible it would be desirable?—Yes.

330 That the present date is a very unsatisfactory one from the point of view both of India and of England?—Yes. If a change could be made without disturbing the administrative arrangements for touring, and so on, I see great advantages in it.

331 Now, about council bills. The only thing I want to ask is that it was not quite clear to me from the evidence you gave us at the last meeting, whether you consider that the amount of council bills is really determined by the requirements of the Secretary of State or not, that is to say, how far you bring in the argument that they are required in the interests of trade?—Do you mean that the amount is actually fixed with reference to the demands of trade?

332 Yes?—I know I was a little hesitating in answering one of the questions. I think I put it thus way. That supposing in a certain year we begin with an enormous number of council bills to be sold in order to work up to our estimates, we should sell rather freely in the opening months of the year in order to make some progress with regard to carrying out our programme, but that when the year got on probably that sort of consideration would almost fade into insignificance as compared with the demands of trade. It is the demand of trade that is throughout the greater part of the year the governing consideration.

333 You do not mean that you actually bring home money that is not going to be required at home?—No.

334 But it may be in anticipation of requirements?—It is in anticipation. I am very glad that you have put that question, because, as I think I said in reply to the Chairman or to some other member of the Commission, the only purpose of bringing home money from India to the India Office is to spend it in the interests of India. The idea of bringing home money in order to have the pleasure of having a large fortune on show here I need scarcely say is quite out of harmony with India Office ways. Whenever we end up the year with a bigger balance than there is any need for at the moment we are usually sorry that we have not had the opportunity of spending the money, say, by paying off debt, or by avoiding the issue of new debt.

335 (Chairman.) Do you bring home money in excess of your actual and of your anticipated requirements on the ground that it is a convenience to trade that that money should be brought home, or do you limit your total purchases to what you either actually require, or think it wise to provide yourself with in anticipation of foreseen requirements?—I think I can answer that best in this way. We know that the requirements for expenditure on India's behalf in England are practically illimitable, we know, for example, that in every year we ought, if we could, to spend more money on a variety of purposes than we actually can spend owing to the restrictions which the state of the money market, and so on, place upon us. Therefore we are never in a position to ask if I bring home so much more money shall I know what to do with it? There are always objects in England for which money is required on behalf of India, and, indeed, urgently required.

336 (Sir Robert Chalmers.) For capital purposes?—Capital purposes are those for which there are the most unsatisfied demands.

337 (Sir Ernest Cable.) And for paying off debts?—For paying off debts, buying capital stores, and so on.

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338 (Sir Robert Chalmers) You bring home money for the double purposes of revenue and capital accounts?—That is so

339 (Chairman) Am I right in understanding from that answer that you do not sell in excess of your requirements, actual or anticipated?—If by "anticipated" you mean definitely anticipated and set forth in any schedule, then I do not think your question puts the fact quite as it is. Supposing we were selling very largely now and you suddenly ask "What are the specific requirements that the proceeds of those sales are intended to meet?" I could not give you a specific definite schedule of the requirements which those proceeds are intended to meet. I should say they are partly the Budget disbursements of this present year, and then I should be a little indefinite in form but not really in substance. I should say, if at the end of the year we have some millions more than the closing balance for which we have budgeted, that only means that we shall be able to have either a bigger railway programme than otherwise, or that with the same sort of railway programme we would have to make smaller issues of debt, and so on.

340 May I put it differently? You would never bring home more than in your opinion you could usefully use at home?—Quite so

341 If trade required more, you would not consider it your business to provide it unless you saw your way to use it usefully at home?—Quite so. Of course, the circumstances in which we had money and could not usefully use it are very unlikely to arise but if they did arise we should not be so at the mercy of trade as to sacrifice other interests merely to please the trader. That, I fancy, is the gist of your question.

342 (Mr Gillan) I am very anxious to get this quite clear, because, as you know the charge that is always made against the Government generally is one of manipulation or management, whether it is of the currency or of the drawings on India or anything else?—Yes

343 With regard to this council bill question one point that has been made is that the Government draws in excess of its own requirements, and that it was explained that this was done for the benefit of trade, and objection was taken to that, that the money of India as it was put, was being used for trade purposes?—Yes

344 I want to know if we cannot get the Government case established merely on the ground of Government requirements, that is what I am anxious to find out from you. For instance, in paragraph 30 of Appendix I you give, I think, four grounds for the free sale of council bills?—Five, I think, actually

345 The first three of those relate to trade matters, and the fourth is the Government point of view?—That is so

346 Would it not be clearer if this fourth ground which you say is much the most important, were put forward definitely as the object of the policy of the Government, and the others as incidental advantages?—I quite agree with you. Let me be perfectly candid in this matter. You know that the whole Indian financial system is a very great and complicated and difficult system, and very often on extremely short notice one is asked to give Parliament a sort of justification of it in three lines—a very brief lucid, correct summary. I think occasionally it has happened and I do not think one need be ashamed of it that when giving a summary of that sort one has not always put every fact in its right perspective, I think occasionally one has overstated the importance of meeting trade, to use a phrase which is now familiar to you, and has rather left in the background all these more important considerations of meeting the Government requirements and of doing the best for India as a political community. Sometimes in an official publication the thing has been put in what is not ideally the right perspective. In such a matter the Secretary of State relies on officials. They have done their best, but, under great pressure of time, have not always expressed the facts with the most complete and scientific precision that can be reached after long study and labour. I think there have been some slight

defects in the method of presentation, that is what it comes to

347 Then in paragraph 38 of Appendix I you say "This and similar statements seem to rest on the assumption that the Secretary of State has adopted a policy of retaining in London a balance greatly in excess of the amounts needed to meet his requirements. This assumption is incorrect." You would not modify that statement?—That refers to a slightly different matter. I think that we are probably at one, but I am not sure. What I meant to say there was that the Secretary of State does not want to keep high balances, he merely wants to have enough money to meet his requirements.

348 You are referring to the policy there?—Yes

349 About loans in India. Mr Gladstone brought out that the balance that we aim at at the end of March is about 12,000,000l, 18 crores?—Yes

350 That balance is fixed at that amount, is it not, to allow of the withdrawals that we know will take place within the first six months of the financial year?—Yes

351 That is to say, we are working down to a minimum balance which is reached about November or December?—Yes. That is very important, and I ought to have mentioned it in replying to Mr Gladstone, but I forgot.

352 That is to say, we hold a certain balance on March 31st because we know from experience that there will be withdrawals of a certain amount which will work it down to what is considered an absolute working minimum about November or December?—Yes. Some of Sir James Westland's papers bring that out rather fully, as you know.

353 Suppose we take that absolute minimum working balance of, we will say, 12 crores, from that point the balance begins to go up again, does it not?—Yes

354 In January, February and March?—Yes

355 There is then an excess over and above the working balance?—Yes

356 Is there any objection to lending that temporary excess out in India?—No, I see no objection to lending anything that can be safely lent, provided—and this is very important, I think—that this is borne in mind. If you lend in some years you rather create an expectation that you will be lending in all years, and it is a very serious thing to create an expectation of that kind which you may have to disappoint. That is perhaps a platitude, but it is really a very important platitude to bear in mind. Then there is a further point which, of course, you have not overlooked, that in December you cannot lend much. If you have got in the habit of lending, people might expect to borrow your money in December, when you have not got it, rather than in March when you have got it.

357 I do not follow that, why should they not take it in January, February and March when there is a big demand?—But there is a big demand in December.

358 They cannot get it then, we will say, but suppose they can get it a later on?—I am merely putting this consideration, that if you get into the way of lending in January, February and March when you have money, it is a little difficult to give a completely satisfactory answer to someone in December who wants to borrow. I mean, that if you say you have not the money, the answer is, "Well, you ought to have." I am merely putting it as a more or less psychological difficulty that may be of some importance but I do not wish to put anything hostile, as I think I made clear.

359 Do you think this possibility of money getting upon the market would apply if the amount lent out were comparatively small?—No, of course the smaller the amount the less is the particular danger.

360 (Sir Robert Chalmers) Would you stick to the small amount?—No. One of the reasons why I was so anxious not to say anything very definite as regards my own opinion is that everyone of these questions that Mr Gillan is putting, and what you have just put, are very important questions requiring judgment. They cannot be answered in brief sentences, and the

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whole decision is a very difficult one to arrive at I quite see the force of your question naturally

361 (*Mr Gillan*.) The only other point I wish to put to you is about loans from the Paper Currency Reserve I take it that the chief ground on which you make the proposal is that at present we have money to spare in the Paper Currency Reserve?—Not that at the present you have money to spare, because that equally applies to the Government Treasuries, but that you are more likely to have a suitable sum there than you are in the Treasuries. That is the one and only justification

362 But if there is a spare amount in the paper currency, would the better course not be to put it into a permanent investment, as has been done with spare money before?—That is what Sir Clinton Dawkins said when he discussed it in, I think, 1900. It seems to me that if you have some spare money it does not make very much difference to the taxpayer whether you lend it say for half a year at 7 per cent. or something like that, or whether you buy a security which gives you 3½ per cent. throughout the whole year. If you could really meet a genuine reasonable demand on the part of the public by lending it at 7 per cent. for half the year, or something of that kind, and could assist Indian trade, the balance of the argument is in favour of that, I should say

363 (*Mr Gladstone*.) With reference to a change of the budget year, I was wondering if a change to September or October would suit you as well with regard to the issue of sterling loans. Would you not come across the autumn and winter money market, which over here is usually less favourable than the summer money market, which you now make use of for the loan requirements of the present budget year?—We certainly could not depend on an autumn money market in that way, but I think it is quite possible that the Government of India and the Secretary of State between them, before the budget came out in September, would exchange their views as to what would be the probable size of the railway programme and the probable amount of loans. The Secretary of State would have to issue his loans before the budget. You see he is not like a Minister who has to go to Parliament or to an authoritative body in order to get permission to issue each particular loan

364 (*Sir James Bagbie*.) In reply to the Chairman on the subject of the Government deposits with the Presidency banks, you mentioned that they began in 1862?—As far as I could ascertain that was the beginning

365 At that time the Government were not only depositors, but also shareholders?—Yes

366 You mentioned to day also that deposits were given to the banks by way of compensation for giving up their note issues?—Perhaps I should be more careful if I said that the banks always claimed that that is the compensation, and I think generally, without committing myself, it has been thought that there was some reasonableness in the claim

367 But you would not admit, as an absolute fact, that it was a case of compensation?—I do not think, if I may say so, that there is very much between us on the point. Supposing that at any time one of the Presidency banks said that it had a definite claim to so and so, because otherwise it would not be compensated for the confiscation of its rights, I should not like to agree with that, but in a friendly and general way I think most people would agree that there was something to be said for giving the banks something when the note issue was taken away from them

368 The reason I asked the question is that it is constantly being said that Government leave considerable sums for the benefit of trade with the Presidency banks, and it is a question, to my mind, whether the Government are altogether entitled to say that. If they give the deposits by way of compensation for giving up the note issue, the assistance that the deposits give to trade is a consequence of the compensation, not the cause?—May I ask you, is there very much in that point? I do not mean is there much substance in it, but is there not a slightly unreal controversy as to whether the Government claim a little too much merit for themselves or not?

369 I do not wish to press the point, but I would like to have it cleared up, that is all?—I should say, and I think this is very much in accordance with your view, that it has generally been recognised that the claim to compensation, though in no way a legal claim, appeared a claim that it was reasonable to recognise

370 In paragraph 9 of Appendix I you say, "On the flotation of a loan, and in special cases, the amounts are increased." I do not quite know what you mean to impress upon us there. In the case of floating a loan, do the Government increase the balances with the banks in advance of the issue of the loan?—No

371 Then how?—The information that I gave was taken, I may almost say plagiarised, from that telegram from the Government of India, from which I read you some extracts before (see page 66, Appendix II). What I meant to convey was that when a loan is issued and the money paid into the Government account at the Presidency banks, I believe that it is the practice of the Government not to draw out that extra money with too great haste so as to take the money off the markets too rapidly

372 You are aware, of course, that the Government have claimed the right to do it, and have actually done it in previous years?—Yes, and, as I say, you get no protection in your agreements against it. I believe—of course I may be misinformed—that in a general way the Government, in a spirit of comity, does take this money from the banks, from the proceeds of the loans, somewhat gradually

373 That has been latterly the case, but it is not a thing that we can depend upon, the banks cannot depend upon the money being left with them at any time, can they?—No

374 Then you go on to say that "At times of great stringency in the money market the Government of India grant loans at interest to the Presidency banks." I do not know whether you know they also refuse to grant loans?—Have they done so recently?

375 Not recently—that is, not within the last six or seven years, so far as I know?—The part of the history with which I am familiar is that there is a despatch of the Secretary of State of 4th May 1899 in which he laid down that rule, or made that suggestion that the rate should be the bank rate (see Appendix II page 64, paragraph 10), and from that time I think it has been the practice to grant the loans when applied for. There may have been exceptions, but I do not know of them

376 There is no settled policy in the matter, so far as I know?—If at any time the Government had money and there was stringency in the money market, if you were willing to pay the bank rates, I think you would have no difficulty in getting a loan

377 I think that is not the case. We have had cases where we have been refused loans without any reason assigned, at another time we have been told that the Government declined to lend in the absence of a critical position?—Of course, there is some room for diversity in the practice of individual Governors General or Comptrollers-General. What I have endeavoured to do is to give you what I understand to be the declared policy of the Government and I assume that it is usually carried out with discretion

378 You say that of late years there have been no requests for loans from the banks and you assume that that has been due to the rate of interest demanded. That has not always been the case. As you say in the same paragraph (paragraph 10 of Appendix I), the banks have taken loans, so it is not always the case that the banks decline to take loans because of the rate?—I think the correspondent of the Secretary of State, who said the bank rate was the chief cause of the loans not being demanded, possibly overstated the matter, and I was rather careful, I am afraid, as I explained with some prolixity, to say that I did not pin myself to his view

379 Do you know anything of the conditions that have been laid down in previous years on which loans shall be granted by the Government?—When you say previous years, what period do you refer to?

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[Continued

380 At the time the loans were being taken, I am taking now between 1898 and 1906?—I think that the period was as a rule prescribed, and that the rate was variable from time to time. If the bank altered its own rate, then it altered the rate of interest paid to the Government. I think those are the only conditions, and that the correspondence between the banks and the Government of India was extremely brief.

381 I would like to mention that some very onerous conditions are attached to these loans. For instance, I find that the Comptroller General has intimated that the Government should help the market only when trade is seriously inconvenienced by a high bank rate. That was one of the conditions laid down in 1899. Then we have also been told that the minimum bank rate at which the question of loans would be considered was to be 7 per cent, that is to say, the Government would not give us loans when the bank rate was below 7 per cent?—I think that even if that does not sound reasonable there is a certain reasonableness in it. The principle followed has been—and I do not think the banks themselves have much dissented from it—that these loans should be somewhat in the nature of emergency loans, and the 7 per cent rate was no doubt taken as a sort of index of an emergency having arisen.

382 Of course, the banks are in this position, that they have to assent to the terms laid down by the lender, for the Government are in the position of the lender?—I could not quite agree to that statement, and I will tell you why. I have read through a vast amount of correspondence between the Presidency banks and the Government of India about loans and similar subjects, and I have always been struck by the extreme reasonableness with which the Presidency banks have put forward their views, I mean they have never put forward the extreme view that every penny that the Government has ought to be lent with them and placed at the disposal of trade. They have always gone about it in, I may say, a much more sensible manner, and have said, when there is a pressure in the money market of Calcutta or Bombay, it is really hard that the Government, if it has funds, should not lend them to us either with or without security. It is because they have approached it, and I think very properly approached it, in that spirit, that I do not think the adoption of a certain figure as indicating pressure is unreasonable.

383 I do not suggest that. My desire was to bring out the conditions on which the Government usually give these loans. Another condition was that the banks, when they took loans, were not expected to make any profit out of them—that has already been mentioned. That is to say, the banks were expected to lend at the same rate as that at which they were borrowing?—That remark originated with a Presidency bank, as I pointed out.

384 That has been brought out already. The Comptroller General at one time also intimated that if a Presidency bank declined to pass on money lent by Government, at the same rate as that paid to Government, he would suggest to Government that loans should be made direct, and he thought banks would like that as little as Government. So that the conditions under which the banks do obtain loans occasionally are very stringent?—Yes.

385 When you state in paragraph 10 of Appendix I that at times of great stringency the Government lend to the banks, that conveys an impression to my mind, certainly, which I do not think is altogether justified by circumstances?—Do you mean that the Government are more severe in their conditions than I have indicated?

386 That is the impression given to my mind?—I can only say that I base all that I say on the subject on the official correspondence that we have here which expresses the intention of the Secretary of State and the Government of India. I noticed with some interest that remark which you quoted from the Comptroller-General. It is quite possible—I do not think there is anything improper in my saying it—that that particular remark may have been somewhat indiscreet, I mean Comptroller-General are not perfect 24 hours a day and 365 days in the year.

387 I think you stated to the Chairman that regarding loans from the Treasury there was a question whether the market should rely on Government balances?—Yes.

388 The market in India rather looks at it, sometimes at any rate, in a different way, they think it is a question whether the Government are justified in withdrawing money to a very large extent from the market's resources?—As I said, I think to Mr Keynes it is very hard to say how far these Government balances come from market resources. If they represent land revenue paid in by agriculturists that is not money market money, and it is not a depletion of market resources.

389 I think that a great deal of that money is money market money for this reason, that in the cotton districts, for example, the soukars, the native bankers, lend money to agriculturists for the purpose of paying their revenue—they advance money against the growing crops—so that the soukars give to the agriculturist and get money from the banks, and therefore, it is really money market money that is being raised?—On that subject I defer to you. You know so much more about it than I can hope to.

390 You are aware that the bank rate of India is the rate fixed from time to time by the Presidency banks, and that the great bulk of Indian trade is, as I suppose you know, conducted at rates which are dependent upon or based on bank rates?—I should assume that, although as a matter of fact the divergence between, say the rate prevailing in a district and the quoted bank rate might be very great indeed.

391 Not very great nowadays since railways have developed so much?—There again I would not profess to know anything like so much as you know on that subject.

392 At any rate what I want to bring out is that it is a matter of very great importance to trade that the bank rate should not reach a high level?—That is so.

393 That of course you acknowledge in paragraph 14 of Appendix I, where you say the advantages are obvious?—Is it worth mentioning here that some authorities including bankers, have been very eloquent in the correspondence I have read as to the disadvantages of too low a bank rate, because they say it tempts people to hold up their produce unduly by making it cheap to hold out for high prices, and that it tempts people to speculate in securities, and has other similar ill effects.

394 When you say it is an advantage to have a low bank rate, and you refer to the obvious advantages of avoiding a high bank rate, do you mean that it would be an advantage to the Government, or to trade or both?—I meant primarily to trade, and in fact to India generally, but incidentally whatever is good for India is good for the Government. I was not thinking primarily of the Government, except as a sharer in India's prosperity.

395 Do you not think that if anything can be done to prevent these high rates periodically in India it would be a great advantage to the Government in the matter of floating loans in India?—Yes. As a matter of fact, I believe that up to a certain point it is very easy to float a loan at certain periods of the year in India, because as against a very high bank rate in December or March there are very low rates prevailing in the dead season. Still generally I agree with your remark.

396 If you can bring about a state of affairs when the rate of interest would not rise to a high level in the busy season, the market would be in a better state to assist the Government at times when they do take loans?—I quite agree with you there.

397 So it would be to the advantage of Government as well as of trade?—Certainly.

398 The season of high bank rate corresponds, I think with the Government revenue collecting season?—I think Mr Gillan has already brought that out?—Yes.

399 The Government begin to collect revenue in December and January and then the balances rise?—



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The Government revenue usually comes in after the turn of the year. Those two things synchronise fairly well but not exactly—the time of a high bank rate and the time of revenue collection.

400 The minimum is in November and December and goes steadily up in January, February, and March, taking the balances at the end of the month. I think you will find that the Treasury balances mount up year after year in January, February and March, and that is the time when the bank rate is usually highest?—The reason I stopped for a moment was that I noticed that in 1910 your bank rate did not rise to 7 per cent in Bombay until the end of March.

401 In that year there were very heavy sales of council bills, do you remember?—Yes. I merely say that though the two things generally coincide they do not coincide very exactly, but there is not very much in that point.

402 The usual process is that the revenue collected by the Government passes into the Treasury in hard cash—that is, in notes or in coin?—Quite so.

403 When paid into the treasuries in charge of the Presidency banks, the money thus collected in excess of the balances usually retained is removed to the reserve treasuries or to some other treasury where money may be wanted?—Yes.

404 The revenue money thus collected disappears from the market?—Yes.

405 That, we think, is a great factor affecting the rates of discount. You mentioned that you had been much impressed by the evidence of Lord Northbrook, I think it was before the Committee of 1898, regarding the establishment of the reserve treasuries in consequence of the difficulty experienced in the '70's in withdrawing money from the bank in Bombay?—Yes.

406 Having regard to the effect produced on the rates of discount by the reserve treasury system the remedy applied was an extreme one and most expensive to India, that is a view that I wish to put before you?—I have not compared the rates of discount so far back as the '70's, but of course if you say that there are considerable disadvantages in the reserve treasury system it is so obvious that one could not help agreeing with you.

407 In affecting the bank rate?—Presumably it affects the bank rate.

408 Most other countries have found ways and means of combining and organising their resources for the general benefit of the community. Do you think it is reasonable that Indian trade should continue to be penalised by high rates of discount during several months year after year because of the reserve treasury system?—No. As a matter of fact, referring to the preamble of your question, if you take what one may regard as the two most highly civilised nations, namely, England and the United States of America, I do not know which of them does less to help the trade in the manner you refer to. I merely say that in passing, as bearing on the historical fact I quite agree with you that, so far as the unforeseen consequences of the reserve treasury system can be obviated with safety both to trade and the Government, it is a good thing to obviate them.

409 (Chairman) With reference to what you said a moment ago, do you suggest that there is anything in England similar to the locking up of this money in the reserve treasuries in India?—No. I understand that as a rule the Treasury has very little money because the money comes in and goes out *pari passu*, so that the Treasury does not as a rule place much money of its own at the disposal of trade by leaving it with the Bank of England. I do not know how much the balances are.

410 You do not suggest that that is due to its keeping up any reserve?—No. I thought Sir James Begbie implied that most Governments placed considerable sums of Government money at the disposal of trade. The United States actually takes its money, as I understand, and locks it up in treasuries. The British Government, as a rule, I believe, so adjusts, or has adjusted for it by circumstances, its receipts and disbursements, that considering its importance it has

comparatively insignificant balances as a rule. I think you must not assume that England and the United States, which are two important nations, do what India fails to do.

411 (Mr. Keynes) Whenever the Treasury has money at the Bank of England, it is in effect put at the disposal of trade?—Yes.

412 (Sir James Begbie) The Government of England never take money away from the market to the disadvantage of the rate of discount?—No. They have no place to put their money except the Bank of England, I believe.

413 You referred to the very large Government balances which have been in excess of Government requirements, and you explained that they were due to exceptional causes which have almost passed away, but is it not the case that even with the loss of the opium revenue the total revenue will show a considerable increase over that of a few years ago?—It is very hard to forecast. You ought to remember that when the King went to Delhi he promised a great increase, or he made remarks which suggested the possibility of a great increase, of the expenditure on education and there will be on other things, such as sanitation. No doubt there will be heavy demands for expenditure, so that you cannot say whether in the next few years there will be considerable surpluses or not. I do not know that anyone could possibly speak with any confidence on that subject.

414 The point I wanted to make was that there is more revenue collected than in former years?—No doubt.

415 Is there not a possibility that as more revenue falls to be collected and the money finds its way into the treasuries, it will have a greater effect on the money market than formerly?—It depends, of course, on how much money is paid out.

416 On the revenue side there will be a tendency to affect the money market more?—On the whole I should say it was more affected by the balance that remains than by the gross revenue that is paid in.

417 (Sir Robert Chalmers) Is that true? Suppose you have double the revenue?—And the expenditure?

418 Yes, would that not have an increased effect on the money market? Is it not a commonplace and accepted by everybody that you are taking money off the market when you are taking it out of the pockets of the leges?—It depends, of course, partly on the amount you pay back and partly on the rapidity with which you pay it back. I can quite understand that if you take money by way of revenue collection early in the year, and then keep it for a long period before you spend it again, then, of course, you will have large balances for a time, and you will injure the money market.

419 (Sir James Begbie) During the recent period of very high balances—I am talking now of the last three or four years—was the question considered whether the excess balances could be retained in India for use in the money market, with the object of avoiding high rates of interest?—No. I cannot say that that question really was considered. In the first place I may mention—which I have no doubt is familiar to you—that on a question of that sort the Government of India would naturally be the advisers of the Secretary of State, and I cannot recollect that on any occasion they did tender any advice on the subject to him. Then again, as various other members of the Commission have brought out, large sales of bills which drew the balances to England have had very great advantages, so that if any change had been made which prevented these large sales or if any such change had been proposed there would have been a great deal to be said on both sides.

420 You gave reasons which appeared to be regarded as conclusive against increased deposits with the Presidency banks, these reasons are based on what happened in 1875?—Yes.

421 Is there a good analogy between the circumstances of 1875 and those of the last two or three years?—No. You say, "which appeared to be regarded as conclusive." I do not know if you meant that I regard them as conclusive. If so, I do not regard them

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as conclusive. As I explained in answer to another member, I think Sir Ernest Cable, I was anxious to put the facts to show that the facts of 1874 were of some importance and weighed with the authorities from time to time, but I certainly would not set up the rather vulnerable proposition that we must necessarily be guided now by what has happened nearly 40 years ago.

422 The question of the earlier date of 1875 had reference I think, to the ordinary balances of the Government, since 1909 there have been very large excess balances beyond the needs of Government, have there not?—Yes.

423 My question with regard to whether the matter had been considered by the Government about lending these balances had reference to lending balances in India and arose from the fact that these were these large excess balances available which could have been used in India if the Government wished?—I imagine, but I do not know, that from time to time the Government of India have considered the question, but they have not approached the Secretary of State on it.

424 You also quote, in paragraph 15 of Appendix I, the reply given by Sir Guy Fleetwood Wilson to a question put in the Legislative Council stating that "the Government of India lent considerable sums out of their Indian cash balances on deposit with the Presidency banks. They do not consider it advisable to make a practice of lending to the money markets in India in any other manner or to any larger extent." The question I would like to ask is whether that reply was given without reference to the Secretary of State, if I may ask that question?—I am very glad you have asked that question, because I have seen that point raised, I think, in newspapers. There has been a suggestion made in what I might almost call an unfriendly spirit that Sir Guy Fleetwood Wilson was asked or instructed by the Secretary of State to make that reply. Now what happened was that at the time that these questions were put, either by Sir Charles Armstrong or by Sir Cecil Graham, by one of those two at any rate, notice was given and certain figures were asked for which could only be supplied by the India Office. According to my recollection the Government of India telegraphed for that information and for anything the Secretary of State might wish to say to them regarding this question. I think it was Sir Cecil Graham's question.

425 (Mr Gillan) Sir Cecil Graham asked one question and Sir Charles Armstrong asked another?—I am on the question put in September. The Secretary of State gave such information as could only be supplied by the India Office and he may have made some general remarks about the series of questions, but on this particular one he said nothing, he left that as a question within the Government of India's purview to be answered by them as they thought best.

426 (Sir James Begbie) Against this reply of Sir Guy Fleetwood Wilson you put in the note "that if during 1912-3 the Government of India had wished to place large deposits from their Treasury balances with the Presidency banks, they would not have been prevented by lack of means at that time." It is the general idea in India that the Government of India held all their available surplus at the disposal of the Secretary of State for his drawings, is that the case?—No. I remember that in some of those old papers Sir James Westland rather emphasised that point. Of course, the drawings of the Secretary of State are one of the great drains on the Government of India's balances, but there are times when as in this particular period that we are discussing, the Government of India have far more than is necessary to meet any reasonable amount of the Secretary of State's drawings. In any case there is another point I should like to mention which is perhaps a little intricate, but which is very important. Supposing that the Government of India had placed certain of their money with the Bank of Bombay on loan say, for three months, and then the Secretary of State wished to draw council bills or to sell telegraphic transfers up to a certain amount, the Government of India would say to him, "You cannot

"draw against this particular sum which we have placed with the Bank of Bombay", and the Secretary of State would recognise that he could not draw against that particular sum, it would all be taken into account in forming the estimate of what he could draw.

427 Then, I understand that in 1912-3 it was not the case that the Government of India did hold the whole of their balances at the disposal of the Secretary of State?—No, certainly not, but they no doubt were ready to meet his bills or his transfers when they were drawn.

428 You regard loans to the Presidency banks from the Government balances as an uncertain source, and you consider there is an objection to largely increased deposits being given to the banks from the Treasury balances, because they are uncertain, I would like to ask you if you hold the same opinion, and the same strong objection, no matter what the size of the Treasury balances may be—I rather think you have answered that question already to someone else?—Of course, if you do in one year a thing that you may not be able to do the next year, one person may say you are wise to do it when you can, because you confer a certain benefit at that time, and another person may say it is better not to do it at all, because you may raise, and have ultimately to disappoint, expectations. It is a matter really, if one may say so, almost of one's general judgment about things in general rather than a financial question.

429 Could not a point be mentioned or settled, and then if the Treasury balances exceeded that point loans might be given? Might not something of that kind be done?—Personally, as I hope I have made clear, I am in no way obdurate about these matters, in fact I see very great force in what you say. Still, it remains true that if the jute trade, or the cotton trade, in one year were largely dependent on the Government balances, which happened to be very big through some fortunate accident, and went on, say, for two or three years, and then the Government balances, through no fault of Government, fell down, the jute trade and the cotton trade might be very much hampered through the sudden withdrawal. I merely give you that for what it is worth, I do not say it is a conclusive argument in favour of or against any particular policy, but it is a point to be considered, and that it is all I wish to put about it.

430 You drew a distinction between loans to help trade and loans to earn interest, but India Office balances have been deposited with banks and lent to other banks and to discount companies, and these companies, as I understand, do help trade, there is not much point in the matter as between lending to the banks in order to assist trade, and lending in order to earn interest?—The difference between us there is very great indeed. If we were lending in India, we should be very anxious to consider the effect of the loans on the borrowers, I mean not to interfere with their general method of business and not to raise expectations from them which we could not fulfil. As regards the borrowers from India Office balances we regard them with the utmost callousness. We do not care for those borrowers at all. We lend our money to a bank, or to an approved borrower, and it is understood that he has got to deposit security, and that he has got to pay the money back at the right time, and to pay his interest, there is between us, if I may use an old expression merely the cash nexus. We want his interest, he wants our loan, and the relation is absolutely different from that between a more or less paternal Government in India and the trade of India.

431 Is there any reason why Government should not give loans in India for the sake of interest only?—No, certainly not. I have drawn your attention to the fact that all this danger of interference with trade, and disappointment if one cannot lend in the fifth year after one has lent in the four years, is rather serious in India, because the Government capital bulks so large in the comparatively small Indian money markets, whereas in England, if you lend one year and you do not lend another, it is so trivial that you do not by

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withdrawing your loan money interfere with anyone to any appreciable extent. This is the distinction that I put

432 But you think you might in India?—Yes, I think you might. I think that if you wanted to do in India what we did some months ago—I think we called in seven or eight millions in the course of three months—those figures are not exact, but they are approximate—you would cause a great deal of turmoil.

433 (Chairman) I understand your view to be that if you lent in India, and had occasion suddenly to call in the money, you might create a crisis?—Yes.

434 But if you lent in England, and had occasion suddenly to call in the money, the likelihood of your producing a crisis is much less?—Yes.

435 In addition, you do not care if you do produce a crisis here, as it is not your business in the sense in which it would be your business if you produced a crisis in India?—Yes, and as an illustration of how much we can call in without disturbing the market, perhaps when you look at the papers which Mr Badock is submitting to you, in which you will see our balances from day to day in the year 1912-3, you will note that between 28 September 1912 and 6 January 1913\* we reduced our loans on the market by somewhere about eight millions. I do not know the exact figure, but you will see when you come to it what a remarkably large figure it is.

436 (Sir James Begbie) You suggest that loans might be given from the paper currency department reserves rather than from the Treasury balances, would loans from that source necessarily ease the market? Suppose, for example, Government were granting loans from that reserve and at the same time accumulating money in the Treasuries to a large extent, then one operation would cancel the other so far as the money market was concerned, would it not?—I should rather put it this way. At present, if the Government were accumulating large balances, it would be taking money off the market and doing nothing to counteract it. If at the same time they lent money from the paper currency reserves it would be counteracting the stringent effect of its taking money off the market by means of its Treasury balances. Then there is a subtle question—I hope you will not press me on it, because it requires a very fine brain to answer it—namely, what exactly is the relation in every sense between the Treasury balances and the paper currency reserve? You see in a sense the paper currency reserve is merely the solid backing of the paper Treasury balances.

437 (Mr Keynes) Is it not the case that the money in the reserve treasuries is almost wholly in notes?—I think entirely.

438 So that when there is a great deal of money in the reserve treasuries, that means there is more money in the paper currency reserves?—That is so.

439 So that when there are high Treasury balances that shows itself in its being easier to make loans from the paper currency reserves?—That is so.

440 Therefore the two things give alternative methods of effecting the same purpose, not rival ones, as suggested?—Yes. I was trying to put that point to Sir James Begbie, but at the same time to steer clear of a very elaborate discussion of it. I think that owing to Mr Keynes' kind help now the important part of it is clear, is it not?

441 (Sir James Begbie) Not to my mind, taking it from the money market point of view?—Just allow me to put it this way and I think one can make it clear. At a certain moment we have so much in our reserve treasuries let us say, and then owing to the collection of revenue, and what not, we get, say, an extra two crores in our reserve treasuries, which are two crores of notes. Presumably at the same time that those two crores of notes came into the reserve treasuries, two crores of rupees went into the paper currency reserve as against those notes. If we lent that two crores of rupees it is really just as good as if we lent our two crores of notes.

442 I will give you an example of what happened last year. The Secretary of State last year drew heavily on the Paper Currency Department—that was for the purchase of silver, I think, for coinage. The effect was the same as if a loan had been granted from the currency reserve, and the same as if the money had been lent to a bank and by the bank to the market, that is the money went out of the currency reserve and went into the hands of the public. At the same time the Government were accumulating pretty large balances in Treasuries. There was a case where you had the same effect as if the loan had been granted from the paper currency reserve, and at the same time you had Government balances going up, so that the one cancelled the other, so far as the money market was concerned?—I should like to look into that in detail and see how far you and I hold the same views as to the effect of it, but I might say this, that if the effect on the money market of the accumulation of the Treasury balances were cancelled under some future arrangement by loans from the paper currency reserves you would at least be better off to the extent of the cancelling.

443 The point I really wanted to make was that the accumulation of money in the Treasury was the greatest factor in forcing the bank rate to a higher level?—I should say that it would cease to be the greatest factor if the balances were accumulated in notes and a part of the reserve held against those notes were lent or deposited.

444 Then loans from the paper currency reserve raise a larger question respecting the suitability of such loans in a country like India, where metallic currency still forms the medium for the great bulk of monetary transactions. Already the reserve in India has been depleted by the removal of several millions sterling to London. A serious problem might arise if in addition the reserves were further depleted by the grant of loans which almost certainly would be taken in coin, you might give such loans from the currency reserve and the money might be taken in notes, but the notes would probably be presented for cash almost immediately?—Exactly.

445 So you would have the risk of loans further depleting the coin reserves of the Paper Currency Department?—I should say that that risk is an extremely remote one. If you look through the figures which Mr Newmarch gives on pp 248-9, Appendix VIII, you will see that the lowest amount to which the paper currency reserve fell within the present generation was rather less than 6 crores of rupees. When the amount has gone down as low as that there is a serious risk. Nowadays we have, as you know, a standard of something between 17½ and 24 crores, and if we granted loans from the paper currency reserves perhaps that would have to be raised a little. With any such standard as we have at present I think that the risk of running short of metallic currency, or even of one particular form of metallic currency, namely, rupees, can be disregarded, I am not in any way perturbed about that.

446 Of course, you recognise that the rupee reserves are replenished occasionally by fresh coinage?—Yes.

447 Do you take that into account also, that you might have to coin if you granted loans to a large extent from this reserve?—Supposing that what I may call our critics are right in thinking that sovereigns are as acceptable as rupees, then loans might be granted, either directly or indirectly, in sovereigns, but if the rupee is still, as I believe, the favourite currency of the people of India, then from time to time we should have to coin rather more rupees. But you cannot if I may so put it, have more money in the country unless you coin more money.

448 There is a risk, is there not, in the further depletion of the paper currency reserve, because you have got to remember that if the reserve in the Paper Currency Department does fall to a lower level, then the reserve of your paper issue will be affected—it may be a remote contingency now, but the risk is there?—I do not know that on this point there is very much trouble. The management of the stock of rupees to

\* Appendix XI, pp. 323-6.

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be held in the paper currency reserve, though it did give rise to some difficulty years ago, is really an exceedingly simple thing. You have to allow for certain risks, and it is quite easy, and I am sure that anyone with official experience would say so, to allow for those risks.

449 You give a statement in paragraph 15 (2) of Appendix I for the purpose of showing that the Government deposits with the Presidency banks might perhaps be regarded as a high proportion of the capital and reserve and of the cash held. I would like to say that the statement is drawn in an unusual form. I think it is recognised generally that the safety of depositors does not depend on these proportions. I would also like to mention several particulars about the Presidency banks generally for the purpose of showing that there is not the same anxiety, and should not be the same anxiety, about lending to Presidency banks, or depositing with them, which your memorandum rather seems to suggest. I would like to say that the Presidency banks publish weekly statements of their affairs, and that I think is a valuable safeguard for depositors. Then the banks are incorporated by statute which also regulates the business in which they may engage, and which excludes operations in foreign exchange. Then the byelaws drawn up by the directors require the sanction of the Governor-General in Council before they become effective. Another thing is that it is most difficult to get any alteration of the powers of the banks, or any extension of the powers, even to assist the enterprise of public bodies, as was shown when it was proposed to empower the banks to deal with the shares of assisted railways and the securities of district boards. The Government of India deemed it necessary to consult the Chambers of Commerce before they amended the Act as desired?—Perhaps I might say that on the main point I think there is complete unanimity of opinion between us, that is to say, I recognise—and I am sure everyone who has had to do with the India Office or the Government of India recognises—that the Presidency banks are very great and important institutions which render the most valuable service both to the Government and to India generally, and they are bodies of very great strength, who can always be relied upon to meet their engagements. But having taken that for granted, I did draw attention, for what it might be worth, to certain proportions which perhaps have a bearing on the question of the feasibility of large increases of Government deposits. If I gave the impression that it was in any disparaging spirit to the Presidency banks that I mentioned these facts I am extremely sorry, I had no such intention.

450 You also deal with the question of deposits or loans with other banks in India, and you refer to a discussion that took place in Calcutta between the representatives of certain exchange banks and the Finance Member of Council, when the impression given was that the banks concerned would not welcome an extension of the practice of placing Government money with the banks, at any rate if introduced on a large scale. I draw attention to that for the purpose of asking whether it is the case that loans have been given to the British exchange banks by the Secretary of State from the India Office balances—I think you have already said so?—Yes, I gave particulars to Mr Keynes.

451 The rates of interest at which these loans were given, I understand, were under the Bank of England rate?—I should think ordinarily they would be, because the Bank of England rate is what is properly called a discount rate—the rate for discounting bills. That is rather different from a rate for a loan for three weeks, or whatever it might be.

452 You also deal with loans to firms and institutions other than banks in India, but I think you mentioned that such loans have never been granted so far as you are aware?—Yes.

453 Do you think that loans given to other banks or private institutions would have the same useful effect as loans to Presidency banks?—I see the tendency of your mind, and I agree with you in substance, though perhaps not for the same reason. I think it is

much better, if the Government is going to lend, that it should lend to big banks like the Presidency banks. As regards the effect on the discount rate, I expect it is the case, as you say, that a given loan will be more effective if placed with a Presidency bank than with an individual firm.

454 It would have the effect of affecting the bank rate?—Yes, I should agree with you there. That is a point that had not occurred to me, but I think, if I may say so, it is a very sound point.

455 (Sir Robert Chalmers) Is it quite certain in your mind that the effect would be different?—It is not quite certain, but I should rather say that if you had to lend, say, 200,000! —

456 The money would get on to the market?—Just forgive me for a moment—you might lend it, say, to someone like Sir James Beggie, or you might lend it on the other side of the table to Sir Ernest Cable, the owner of a jute mill, I think probably you would have more effect on the money market if you lent it through the bank which would have the option of lending it to the owner of the jute mill than if you lent it to the owner of the jute mill direct.

457 Do you think the money is worth more in the one hand than in the other?—Just consider this. Supposing you lend the money in hard rupees, you know that on every single rupee the ingenious banker builds up a credit superstructure of several rupees, so if we lend, say, 20 lakhs to the Bank of Bombay they would lend against that in the form of banking money perhaps 40 lakhs.

458 What would the jute man do with his lakh if it were lent to him direct?—He would pay his employees, or pay the cultivators from whom he bought his raw material.

459 Would he not pay it into a bank as a deposit to draw against?—He might for a very short time.

460 (Sir Ernest Cable) It would be used very rapidly, of course?—He would draw it out again to pay for the raw material.

461 (Sir Robert Chalmers) Would he draw it out and use it more rapidly if it came to him direct from the Government than if he had got a credit at the bank?—I cannot say.

462 (Lord Faber) If it went through the bank, unless the bank put something on for interest to its customer, I do not see how it would do more for the money market than the jute man would have done?—I should have thought that if you have a choice between paying a certain sum in actual metallic money to a bank or to a manufacturer who, perhaps, will not take the trouble to bank it in the interval between his receiving it and spending it you would probably do more for the money market by giving it to the banker, who would build up his credit superstructure on it.

463 It is very arguable that the money is the same wherever you lend it, unless you add something on to it and charge for it?—If there is one proposition with which I should not agree it is that money is the same wherever you put it. Money seems to me to differ enormously according to where it is put.

464 (Sir James Beggie) With regard to the question of council bills, the origin and purpose of the council bill system was for the purpose of remitting money from India to England to meet the actual disbursements of Government, was it not?—Yes, that is right.

465 At the present time Government bills are used for a much wider purpose and a much larger purpose?—Yes, there has been an extension of the system. There has been no change in kind, but it has gradually spread over a larger area of transactions.

466 You use council bills now not only for remitting the money which Government itself requires in London but also against the Paper Currency Department, for example, or sometimes against the gold standard reserve?—We sometimes sell bills you mean, which the Government of India cannot meet from Treasury balances and which they can only meet from their paper currency reserve, that is so. A great many questions arise out of that.

467 In your memorandum (Appendix I.), so far as I can judge, there is no clear distinction drawn between

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the different purposes for which council bills are drawn?—I would say this, that from the one side they are drawn in order to enable the Secretary of State to meet the various kinds of expenditure which he has to meet in London, both revenue and capital, both immediate and future. That, I should say, is the main purpose, but incidentally the system is so worked as to give certain reasonable facilities and conveniences to trade.

468 In the memorandum presented to Parliament (Cd 6619) you gave a number of various reasons why council bills were sold in excess of the Secretary of State's immediate requirements, I think?—Yes.

469 You have four different reasons, I think?—Five.

470 Do you not think that these give the Secretary of State considerable range of options when bills are wanted?—If you mean that it leaves him a great liberty of action, yes, but not an unreasonable liberty. Of course, much depends on whether the way he does his business is made clear or is not generally recognised. I think it is a very great advantage that he should, as it were, put his cards on the table and say, "This is the way I do my business of selling council bills. I think the India Office have been very keen on making it clear."

471 In the case of council bills drawn against paper currency reserves is it recognised that there should be any special rate on such bills?—No. Of course, such bills would only be sold at a time of great pressure, and the rate would usually be well over 1s 4d, but it has not been decided, as was suggested, I think, by one or two Members of Parliament, that such bills should only be sold at 1s 4½d—at the maximum price, I think that is the suggestion you are referring to.

472 Yes, it has not been laid down as a fixed rule, has it?—No, it has not.

473 Do you not think that is a necessary measure?—I do not know that there is any great advantage in it. It is, if I may say so, a point of such minor importance that I do not think if good reason were shown the Secretary of State would be obstinate about it. I think the difficulty is that people have assumed that 1s 4½d is the real gold point, I mean the lowest point at which gold and council bills compete, and, therefore, there is a peculiar sanctity about it. As will be shown to you in other evidence, that is not the case. The gold point is really a fluctuating point. I cannot see anything very much one way or the other on the proposal that these particular sales shall be at this specified rate.

474 I do not propose to go into that matter further at the moment. As you say, we will probably have that later on. You have told us that since 1904 there has been, for instance, an undertaking to sell bills without limit of amount at 1s 4½d, was that undertaking given with reference to ordinary council bills, if I may use the term, against Treasury balances?—Yes.

475 Not against the currency reserve?—No. From the point of view of the public there is no difference. If a man or bank comes and buys a council bill he does not ask from what source the Government of India or the Secretary of State are going to meet the bill, to him it is a simple bill and nothing more.

476 In the case of the council bill sales against the gold standard reserve, I think the point has already been mentioned to-day that the Government were very anxious to get the reserves of rupees collected at that time transferred into sterling?—Yes, that was after the exchange crisis.

477 At what rate did the Government begin to sell at that time against this special reserve?—I do not think that that is a question one can answer exactly, for this reason. In the course of a year one sells bills, say, for 23 millions sterling, just to take an illustrative figure, and then at the end of the year, perhaps, the Secretary of State says "For my Treasury purposes I am satisfied with 18 millions of these proceeds, therefore I will appropriate the odd five millions to the gold standard reserve and invest that five millions. But one does not day by day or week by week as one sells a bill say, this is sold against the

gold standard reserve. The appropriation is done just as one makes up a balance sheet for a bank at the end of a period of half a year or a year, as it may be.

478 In this particular case sales against the gold standard reserve were bills sold under 1s 4d?—These bills to replenish the gold standard reserve were mainly sold in 1909-10, I think, and the average rate in 1909-10 was for the first six months of the year 1s 3 9/16d, and for the entire year 1s 4 0/16d. I think some of them were sold in 1910-1, but I am not sure of that for the moment, and the average rate was 1s 4 0/16d.

479 In the year before that were there any sales against this reserve?—Yes, at 1s 3 9/16d. I am not sure whether anything was sold to replenish the reserve in the earlier of those two years, but I shall be able to tell you by looking it up.

480 In the case of the gold standard reserve, that was a fund established for the purpose of supporting exchange, and of preventing exchange falling below a certain figure?—Yes.

481 That came into use in 1907-8?—Yes.

482 And a very large amount of rupees were collected in India in consequence of the sales of bills in India on London, the rate at which that was done being 1s 3 3/4d?—Yes.

483 That is the outward gold point, I understand; or what is supposed to be it?—Yes.

484 If that fund is used in that particular way to prevent exchange from falling, should it be used in the opposite way at anything below the gold import point?—I have heard that argument, and I must say, that to me it is extremely unconvincing, if you do not mind my saying so. You use this gold standard reserve in order to prevent the rate of exchange from falling below what you call the outward gold point, or the gold exporting point, and it serves its purpose. You find that fund is for the time being useless for further application because it is not in rupees. Then, the important thing is to get it home again, or at any rate to get it again in the sterling form in order that it may serve the same purpose a second time if the occasion arises. If you could do so, keeping the exchange within the gold points, if I may use a technical expression, you have obviously done a very great service in removing the risk of a future fall in exchange. If you are yourself to be prevented from doing that by some scruple against selling your bills at 1s 3 9/16d when you think you ought to sell them at 1s 4 0/16d then you are sacrificing the weightier matters that you ought to look after to a consideration that is of very little weight, if indeed of any weight.

485 Are you not breaking through your own arrangement about the gold standard? You fix the standard with the exchange at 1s 4d, if you use this special fund to import money below your gold standard is that not going against your gold standard policy?—I think I might answer that both practically and scientifically. Practically, I would say that if you had to manage the Indian exchange system, and currency system, I am quite certain that you would do exactly as we did, and I think if you ask yourself, Sir James, you will say that that is so too. Scientifically, I would say that when you have a par of exchange between two countries with an upper gold point and a lower gold point, the natural thing is to carry on your ordinary transactions in your ordinary way so long as your exchange is between that upper gold point and that lower gold point, and to stop your transactions when the rate falls somewhere between the par of exchange and the lower gold point has no justification. I am certain it has no practical justification, and I do not believe that anyone has ever put forward any theoretical justification for it.

486 At any rate, I understand that in managing the sale of these council bills the rate of exchange is not specially considered as regards whether the sales should be made at or over the 1s 4d point?—What I think I said in answer to Sir Ernest Cable is that one would ordinarily sell at or above 1s 4d, but the Secretary of State has that latitude that at times he sells between 1s 4d and 1s 3 3/4d.

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487 And that is a latitude which he exercises not only in the case of Treasury drawings, but also in the case of drawings against the paper currency reserve and the gold standard reserve?—As regards the paper currency reserve, I do not think he would, for this reason, that, as I said to you, it is only when there is a great pressure for exchange on India that he sells against the paper currency reserve and then *as hypothesis* the rate would be higher than 1s 4d.

488 In paragraph 28 of Appendix I you quote from paragraph 70 of the Report of the Indian Currency Committee of 1898-9, but, I think, condensing the paragraph which you quote. You say, "It is eminently desirable that in order to assist towards the speedy establishment of an effective gold standard in India the Government of India should restrict the growth of their gold obligation." I rather think that the paragraph quoted contains a good deal more in it?—I assumed you would have it before you when you read this, but I have not left out, I hope any thing that is material to what I was putting. I have the report here.

489 I was going to say that it includes the idea that capital should be encouraged to flow freely into India for the further development of her great natural resources, whereas in this paragraph of your memorandum I understand you to recommend and to support the idea that the Secretary of State should encourage the flow of gold from India?—I do not think that that is a natural construction of anything that I have said.

490 You refer in paragraph 28 "to the general advantage of restricting as far as may be, the growth of a country's external debt and to the practical difficulties attending the issue of large annual loans in London on behalf of the Government of India," and you say, "the Secretary of State endeavours to obtain from funds provided in India as large a proportion as practicable of the money required for each year for expenditure in England on account of India." If you increase the amount of council bills, do you not encourage the flow of gold from India? You may not actually make the gold flow from India, but you prevent gold from coming in?—Yes.

491 You increase the gold obligations, do you not?—I do not think that we are in the same region of the subject. You are speaking about gold actually going to or from India, and on all that you say there I think I agree up to a point. But in this paragraph the Fowler Committee were discussing the importance of not increasing India's external debt, and the annual interest that she had to pay on her external debt, and when I was preparing this memorandum it occurred to me that some very important things might be conveniently linked on to that remark of the Fowler Committee. Where you are speaking of gold obligations with reference to the Fowler Committee, that is a question of loans, this particular part has nothing to do with the gold currency.

492 The idea of that paragraph, as I read it, was that the Fowler Committee recommended a gold standard, and the gold standard was to be associated with stability of exchange, and so on, and capital should be encouraged to flow freely into India. That is as I take it, the meaning of the paragraph, and when they said that they suggested the growth of gold obligations should be restricted, I understand they meant that loans out of India should not be encouraged more than necessary?—Quite so.

493 But in paragraph 28 of Appendix I you point out that the Secretary of State endeavours to obtain money from funds provided in India for the expenditure in England, and if you take the case of the last two or three years you will find that the amount of money which the taxpayers in India have had to pay for export to London has been very great indeed—much larger than in previous years?—Let me see that we are quite on the same ground. I will tell you, if I may, the connection between these two things. The Fowler Committee said keep your sterling loans as low as possible. That was a wise thing to say and the reasons given were good reasons in those days. I put in my memorandum that the advice is still good

advice, but I point out, and I am sure most people would agree, that the reasons why it is good are rather different from what they used to be. Then I say, if you are to carry out this good advice, which remains good, though for changed reasons, provide as much as possible of the money you are going to spend from resources raised in India. Surely that is a faithful following of the precepts of the Fowler Committee.

494 Take it this way. During 1910-1 and 1911-2 I understand the amount of council bills remitted from India to England was roughly 24 millions sterling—we will say 8 millions in excess of the ordinary amount?—You have the figures exactly.

495 That is to say, the taxpayers in India were paying 8 millions sterling in excess of what they usually have to pay, that represents, if you capitalise it, borrowing to the extent of about 200 millions sterling?—Really, I cannot follow you there, partly because the taxpayers are not paying a penny more. The scheme of taxation, you may take it from me, is not made with reference to the sale of council bills, or anything of that sort, it is made with reference to the desirability of having a moderate surplus of revenue over expenditure. That scheme of taxation has a result at certain times of giving the Government of India extremely large sums of money. That is perfectly simple and familiar, is it not? Then the time comes when we have to consider. We want to spend so many millions on railway materials in London, shall we get the money by bringing over our surplus money from India, in which case we shall not pay any interest, and we shall not be increasing our gold obligations, and we shall be obeying the Fowler Committee, or shall we take the alternative course, which I hope you do not recommend, of issuing a large loan in England while allowing our rupees, which we could use, to lie idle in India? I have explained that the Secretary of State always, and rightly, prefers, when he can, to avoid issuing the big loan in England, and, in preference to get money by remittances from India—of course, when he can do so, I mean, without sacrificing any Indian interest.

496 (Chairman) In other words, I understand that what the Secretary of State does is to pay for these railways out of revenue whenever he can instead of increasing his capital account?—Out of the surpluses which are the result of revenue transactions.

497 (Sir James Begbie) These surplus revenues have been very large lately?—Yes they have.

498 (Sir Robert Chalmers) But it has at times been the other way?—Yes, it has.

499 (Sir Shapurji Broacha) Is it not inconsistent to say that the Government will lend at the bank rate and yet that the Government will not lend because the money would not be forthcoming when wanted? I do not talk of 22 millions because I know that it is difficult to lend 22 millions in India. Still, it is not difficult to lend 4 millions or 5 millions or 6 millions?—When you say it is inconsistent, what exactly do you mean?

500 You do not assign any limit to the Government lending at the bank rate, do you?—At what stage do you mean that we do not assign a limit? I am not sure that I see exactly at what point we are inconsistent.

501 You pay brokerage for lending money and the Secretary of State deals through a broker, and is not a guarantor for the borrowers of the money. Do you think a bank which takes the responsibility of guaranteeing the loans would do without some brokerage or commission? Is that not inconsistent?—If I understand you, you think that if we lend to the Presidency banks we ought to lend at less than the bank rate?

502 Yes, as some commission for guaranteeing the loans for the public, because the Presidency banks deal with the public?—I see great force in that, if you will allow me to say so. That is about as far as I need go at the moment.

503 I think that despatch of 1874 on pp 30-31 of Appendix II is ancient history so far as the monetary conditions of India are concerned. The deposits since then have increased 800 to 1,000 per cent, since 1892

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the circulation has quadrupled, and since 1909 the circulation has doubled. Is there not, therefore, certainly some distinction which the Secretary of State ought to consider between the India of 1874 and the India of 1913?—No one would hold that more strongly than I do. I was merely going to mention to you that in all these matters we are to some extent tied to the history. If you come to the history of why we do this, that, and the other, the history leads back ultimately to a very remote and useless period.

504 I am talking only of Indian balances, I am not talking of London balances. We know that the revenue does not come in freely until after December, and we know that between June and December money is going begging at 2 per cent. For the last three years I have been borrowing for six months money at 1½ and 2 per cent on Government paper in India between those months, and it is only when the money commences to go into the treasuries in payment of revenue and the money market is depleted that the price goes up. If you will kindly look at the figures in Appendix II, page 76, you will see that on March 31 you had balances in the treasuries in India amounting to 19½ millions, out of which you have put 3½ millions with the Presidency banks, that leaves in the hands of the Government something like 23 crores of rupees?—Yes.

505 Or 13 crores more than the minimum balance which Sir James Westland and others have required?—Yes, but do not quote him as the standard. Your case, if I may say so, is a strong one from your point of view, but I do not think you strengthen it by comparing it with Sir James Westland's standard, which is rather obsolete.

506 If of those 23 crores 9 crores had been lent to the Presidency banks, money would have gone down to 2 per cent, and yet India and Indian trade has been suffering very much now through want of money, because the money has gone into the vaults of the Treasury?—Perhaps I might say this, which would help possibly. The Secretary of State has been approached by various correspondents who point out to him—

507 Do you think that with all these advances in the Indian money market India is still to be considered to be in as beggarly a condition as in 1874, and therefore is not to be trusted with a little more money? Is all the wisdom on this side here?—It is not a question of trusting. The whole question is one, or very largely one, whether it would do a money market good or harm or more good or more harm to get money from a somewhat uncertain source.

508 There are now 14 millions in the Bank of England belonging to the Government, suppose that they were withdrawn, what would the other bankers say?—Are there? Is it the Government debt, or what?

509 It is just the same as if it were in the Presidency banks—nothing more or less. Do you know that the Indian Presidency banks are regulated by the same rules now as the Bank of England in the matter of lending, and that it must be wholly on authorised securities, trust securities?—I think they are more tied up than the Bank of England—much more.

510 Will you show me any other Government that takes into the Treasury all the balances of the public and allows the people to starve, because of an event which happened 40 years ago?—I can show you the American Government, however, I do not say that it is a good precedent.

511 Has the Secretary of State considered the advisability of lending more freely to India now that the circumstances have changed?—As I explained, it was considered in 1899 I think, or 1900, but since then his natural advisers in the matter, the Government of India, have not approached him on the subject.

512 I only want these points to be brought before the Commission for their consideration. In the matter of council bills I do not think the council bills impede the flow of gold. I see that you sold last year council bills to the extent of 25 millions, and you imported gold equal to 31 millions, 19 millions being in sovereigns and about 12 millions in bars. Surely that does not mean that this selling of council bills above

the allotted amount impeded the flow of gold? I think any country importing 31 millions of gold would have something great to boast about?—In a sense you are defending the India Office against its critics, but I think you are defending it almost too wholeheartedly.

513 Do you know that the import is not always from here? From Australia we can bring gold and also from Egypt cheaper than from London. I think in this respect, therefore, that the Secretary of State was right in selling council bills for his requirements?—I venture to agree with you on that point, I quite agree that you cannot work to a supposed gold point when it is a very shifting thing.

514 Taking these 22 millions that you have accumulated here, of which the balance now remaining is only 4 millions, if that money had been sent to India it would have had to be brought back to pay the anticipated demands of the Secretary of State here?—I have argued that in my memorandum (paragraph 50 of Appendix I, &c.)

515 Since you are against lending it in India, I do think this money should have fertilised in the shape of interest?—You may have noticed in my memorandum and the supplementary notes that I have dealt with that very fully (see Appendix I).

516 The advisers of the Secretary of State consulted the City money market in 1908, if I remember aright, as to how much they could borrow in England for Indian productive works, and whether they could borrow in advance, and the City advised that whenever the market is easy they should borrow for one, two, or three years together?—We consulted the City, that is to say, some very eminent financiers, about railway borrowing and so on,\* and we got a great deal of advice, very largely discordant, and much of it I can assure you has been belied by subsequent events. So you cannot base anything on those incidents.

517 Therefore, I think that after keeping enough for the legitimate needs of Indian trade, any surplus that then remains in hand, if it could be placed out without detriment, in England, it should have been done, India being a debtor country just as Japan is and Russia is, do you agree to that?—I do not like to lay down a very general doctrine about any matter of this sort. I hold to my own view that the Secretary of State ought, as far as possible, to bring home from India what he wants to spend on behalf of India in this country, and that he ought to do it sometimes in advance, because otherwise he may not be able to do it at all.

518 As you know, trade is provided for in India in two ways—the internal trade by the Presidency banks, and the external trade by the exchange banks, therefore ought not the exchange banks to be helped in bringing out money to India, as the Presidency banks are to be helped for carrying on the internal trade?—Yes.

519 I think the conditions obtaining in India do not obtain here. In India the Government have to keep a large balance for contingencies, while in England the Government may be indebted and have no balance at all, but that is because they have a larger market to depend upon?—That is so.

520 (Sir Robert Chalmers) That has nothing to do with the surplus balance?—No. I think Sir Shapurji was speaking there really with reference to the working balance.

521 You want a larger percentage in the form of a balance in India I gather?—Yes.

522 That balance would be needed?—Yes.

523 (Sir Shapurji Broacha.) Really the credit of the Government of India has not declined or depreciated at all, but I think English capital has become bolder within the last eight or ten years, and is seeking for a larger rate of interest?—The causes which have led to the fall in the price of Indian securities which, as Lord Kilbracken has said, is a better phrase than the decline of Indian credit, are very varied.

524 When you borrowed 5 millions at 95 for the railways, why was not that loan offered in India? It

\* See in this connection Cl. 4111 (Report of the Committee on Indian Railway Finance and Administration).

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would have gone off like anything at par?—I would rather not be understood to accept that.

525 Of course with the consent of the Secretary of State the Southern Mahratta or some other railway company offered their 4 per cent loan at 99 for a fixed period, not for a period that the Government might choose to observe?—Thus loan that you speak of was issued at 99, and the rate of interest was 4 per cent. You suggest that it might have been floated with much greater advantage in India. I can only assure you that the Secretary of State is very much alive to the importance of doing his borrowing in India, he is continually consulting the Government of India about it, and he must be to a great extent, as he is in fact, guided by their advice.

526 In this case I think he was badly advised. As you know, we have 4 per cents standing at 102 or 103, our Improvement Bonds for instance?—I have had the opportunity of discussing with your neighbour, Sir James Beggie, some of these points on a previous occasion and I very much doubt if I take him and you as two eminent Bombay financiers, whether he and you would come to the same practical conclusions on these points that you are now discussing.

527 Have you well considered the question of a State bank, is it not a large order?—I have considered it to some extent, and I hope, as I said, to write a note about it later on.\*

528 The Bank of England does the business efficiently of the British Isles, suppose the Bank of England had to do the business of the Bank of France for the French people, and the Bank of Germany for the German people, and to do the same service to Italy that the Bank of Italy does, and so on, taking the whole of Europe right up to Moscow, do you think that one State bank could be established to manage such a large extent of business? As you know, the population of India is just equal to the population of the whole of Europe, except perhaps half of Russia, and as you also know, there is less difference between English people and Italians than there is between the people of the north of India and the people of the south of India. Do you think that that large order could be established brand new without an evolutionary period?—I have always recognised that one of the great difficulties in the way of a State bank is that it would extend over so large an area, that is to say, the whole of India, and over an area which has hitherto for banking purposes been divided up into three distinct territories. You will see when you read these papers of 1900 and 1901, to which reference has been made once or twice, and which are being printed for you,† that the whole scheme of those years for an amalgamated and central bank broke down in consequence of what we called in our jargon provincial and local jealousies. I quite realise that, as you say, the same cause may wreck any future scheme. But I do not think one need begin with the assumption that the mere diversity of interest and the mere size of the area will necessarily be fatal to the scheme. That is all really that at this stage I can say on it.

529 Have you considered the location of such a bank, whether it should be at Calcutta or Delhi, say?—That is rather a matter of detail which is beyond my province. If I say Calcutta, I could not give any very full reason for it, but Calcutta is what would occur to me as a possible place.

529A (Lord Faber) All the State banks have a large number of branches?—Yes, but I think Sir Shapurji is thinking of the head office, at least, I imagine that is his point.

530 (Sir James Beggie) With reference to the opportunity of purchasing bills and telegraphic transfers on India as an alternative to consigning gold for the discharge of the trade balance due to India, that is stated to be a great convenience to trade, that is a phrase which occurs pretty frequently throughout these papers, and I would like to ask you what you understand by the trade. Do you refer to any section or do you refer to the trade of India as a whole?—That is a

very interesting question, because one never knows exactly how far influence extends. If one traces the influence from its source, it would first affect the people who buy our council bills, who are the exchange banks, and perhaps one or two big firms. No doubt it is well known to you that Messrs Ralli, who are very large merchants, buy our council bills. I think it would be a very controversial thing to say that they are the only people who benefit by our sales of council bills to them. I should say that really all the innumerable people with whom they are connected, either directly or indirectly, the big importers, the big exporters, the producers who are, as it were, low down on the distant horizon, must surely all benefit if a convenient and rapid method of making remittances is used instead of an inconvenient and slow and cumbersome method. I think that is the real answer to that question.

531 It is a section of the trade which gets the advantage of the sale of these council bills, is it not—the export trade?—That is the trade which first benefits, and certainly it is the export trade, including the big houses, the producers, and so on, which probably gets the greatest advantage.

532 The internal trade only comes in as a secondary matter?—I quite agree with you there. I think I said in answer to one Commissioner that though council bills are a remedy for some cases of stringency which are due to the activity of the export trade, there may often be troubles and tightness of money in the Indian money market due to other things for which the council bills afford no remedy. I think on that we are at one.

533 (Chairman) How are the approved borrowers chosen?—That is a subject which is rather Mr. Baddock's speciality, but I can tell you in general terms. At the present time any firm wishing to get on to our list would, in the first place, ordinarily approach the broker, Mr. Horace Scott, whom probably you will be examining. He would report the application to the Accountant-General of the India Office. Then information would be gathered, partly by the broker and partly by the chairman or members of the finance committee, as to the general trustworthiness of the firm, its capital, the class of its business, and so on. Then the recommendation would be made to the Secretary of State and the council that such and such a firm be admitted, further, it might be specified that the limits to be imposed on loans to be granted to that firm should be so-and-so. If that were approved—and there is no doubt it would be if it were supported by the finance committee—then the firm would be on our list of approved borrowers. Perhaps I ought to say, to make it complete, that formerly that sort of matter was much more in the hands of the chairman of the finance committee as an individual, but now the full procedure that I mentioned is gone through.

534 (Sir Shapurji Broacha) Returning to the 31 millions that I spoke about to you just now, did not the whole of that, except 4½ millions, go into circulation or into the hands of the people last year?—I think a great deal of it was gold bullion, which would not go into circulation. It would be merely used as bullion.

535 It has gone into the hands of the people?—A small amount has gone into Government treasures and that amount is given in the various statements.

536 (Chairman) It has gone into use but not into circulation, I understand?—The bullion has gone into use or disuse, and the coin has either gone into circulation or hoards, or is used for other purposes.

537 May I come back for one moment—and I hope it will only be for a moment—to the question of the sale of council bills and the amount of them which is sold? Shall I be correct in saying that the amount of council bills that is saleable depends upon the trade demand for them?—Quite so.

538 Should I be correct also in saying that the Secretary of State sells to the full extent of the trade demand?—Yes, subject to the limits of price which, as it were, govern and regulate the demand, I think that would be quite correct.

\* See Appendix XIV, page 349.

† See Appendix XV, page 375.



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[Continued

539 I think he does so, because even if he brings home money in excess of his immediate obligations it is money which in his opinion is not needed in India and which can be usefully employed for India in London?—Yes The only criticism I would make on that is that he does not form the opinion whether it is needed in India, he is guided in that naturally by his advisers, the Government of India

540 It is money which, in the opinion of the Indian Government, is not required there and which, in the opinion of the Secretary of State can be usefully employed for India's interest here?—Yes

541 Meaning by that, not her trade interest, but the interest of India as a whole as represented by the Government?—Yes

The witness withdrew

At the India Office, Whitehall, S.W.

THIRD DAY.

Thursday, June 5, 1913

PRESENT

THE RIGHT HON AUSTEN CHAMBERLAIN, M.P. (*Chairman*)

Lord FABER  
Lord KELBRACKEN, G C B  
Sir ROBERT CHALMERS, K C B  
Sir ERNEST CARLE  
Sir SHAPURJI BUDJORJI BROACHA.

Sir JAMES BEEBIE  
Mr ROBERT WOODBURN GILLAN, CSI  
Mr JOHN MAYNARD KEYNES  
Mr BASIL P BLACKETT (*Secretary*)

Mr LIONEL ABRAHAMS, C B, recalled and further examined

542 (*Chairman*). I propose to-day to turn to the question of the gold standard reserve. In the course of our reference we are directed to inquire into the steps taken with regard to the location, disposition, and employment of the gold standard and paper currency reserves, and whether the existing practice in these matters is conducive to the interests of India. You have handed in a memorandum entitled "The Gold Standard Reserve" with a supplementary note, and some correspondence and statements in illustration of what you have written?—Yes

543 We may take those, I think, as part of your evidence to be printed with our proceedings?—Yes (See Appendices III, IV, and V)

544 I think I am right in saying that when the reserve was being set up in 1900 the view of the Government of India was that the reserve to be established should consist entirely of gold?—Yes

545 And that that gold should be held in India?—Yes

546 But the Secretary of State decided that it should be held in London?—Yes, that is so

547 He further decided that it should consist in part, though not entirely, of sterling securities?—I think that at the time to which you refer the Secretary of State decided that it should be held in sterling securities wholly. That was the decision of 1900

548 Could you give me in outline the reasons for the Secretary of State differing from the recommendation of the Indian Government?—In the correspondence (see Appendix V) the decision is given somewhat briefly, but I think that if you read it, and especially do so in the light of subsequent events, you can see why the Secretary of State differed from the Government of India's view, and why he was right in rejecting that particular scheme which was put before him. You will notice on page 109 that in 1900 a long despatch dated 6th September, No 303, came home from the Government of India with two long notes by Sir Edward Law and one by Lord Curzon. Generally speaking, omitting certain matters which are not really material to your present question, the proposal regarding the gold standard reserve was that it should be held in gold, and that from time to time the gold from the gold standard reserve should be passed into another reserve, the paper currency reserve, and given to the public in exchange for rupees whenever the

public desired it. It is clear, and I think most people would admit it, that if that course had been followed the results might have been very serious—that is to say, the gold would presumably have been dissipated in good times, instead of being held as a reserve for bad times to meet a period of unfavourable trade, the gold would have been passed into the general circulation and would have been of little or no use when a crisis came requiring the use of a very large central stock of gold at very short notice. I imagine that the perception that this scheme would have frustrated the object for which the reserve was established, must have been the reason why the Secretary of State rejected the scheme. Of course, what I say does not refer to subsequent and different schemes for holding the reserve in gold in India, it refers to the particular scheme that was then before the Secretary of State

549 The Fowler Committee\* reported in paragraph 59 in the following words—"We regard it as the principal use of a gold reserve that it should be freely available for foreign remittances whenever the exchange falls below specie point," do you accept that view?—No, not entirely. I think that that is the most valuable use of a gold reserve, but the practice which has been followed has been to use gold for another purpose, namely, to feed the internal circulation. I think that the Fowler Committee themselves meant that gold held by the Government of India should be used for two distinct, and you may say, conflicting purposes—partly to be dissipated, if I may use that word, in good times so as to provide the population of India with a gold currency, and partly to be hoarded up in a central reserve for bad times so as to be available for meeting a fall in exchange.

550 (*Sir Robert Chalmers*). Do you think that those considerations in that form were before the Fowler Committee? Did they look quite as far ahead as that?—I am not sure whether they put the two facts together and saw their mutual relation.

551 Their primary purpose was to provide for maintaining the exchange?—By means of a central reserve of gold.

552 That is a question?—That was a purpose they had in mind, and they also had, I think, a different

\* C 9390.

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[Continued.

purpose—of establishing somehow or other a gold currency in India

553 Do you think they went so far as that at that time?—I do think so, because there are various passages in their report—not the passage which the Chairman read—which say that India ought to have the normal accompaniment of a gold standard, namely, a gold currency

554 (Chairman) Will you direct my attention to any paragraph in that report which indicates that the gold reserve should be used, in your words—and I think I am quoting your words—to feed the internal gold circulation of India in times of good trade?—I do not think that they used the words that the gold reserve should be so used, but I think I should be able to find you passages in which they said that a gold currency was desirable

555 I am quite certain that you would find that, and to that point we will come later, but do you think that that is synonymous with saying that the gold reserve is to be used for the purposes of supplying the gold currency?—I do not think it is synonymous with saying that, and perhaps I am putting a gloss on what they said in the light of the knowledge we have since acquired, which knowledge shows that the way in which the internal circulation of gold can be kept up is by passing gold out of various reserves held by the Government. That is how it has habitually been done. I think that there was, if it is not too pedantic a phrase to use, a certain latent contradiction in the minds of perhaps some members of the Fowler Committee. I do not think that they perceived entirely how the two objects of keeping a central reserve for one purpose and encouraging the active circulation of gold for another purpose were to some extent in conflict

556 In the course of their recommendations they said, "We are in favour of making the British sovereign a legal tender and a current coin in India. We also consider that, at the same time, the Indian mints should be thrown open to the unrestricted coinage of gold on terms and conditions such as govern the three Australian branches of the Royal Mint."\* Has either of these things been done?—Yes. Gold was made a legal standard at the rate of one sovereign for 15 rupees in 1899, almost immediately after the presentation of the report of the Fowler Committee. As regards the opening of the Mint you have, no doubt, the Parliamentary Paper† containing the correspondence and a note‡ that I have submitted mainly for the object of plotting the Commission through that rather long correspondence

557 Was it not to those means that the Fowler Committee looked for the supply of gold for currency purposes in India?—I do not know whether they failed to perceive—they may have done—that, under the regulations that were in force at the time that they reported, the gold would come into Government treasuries or Government reserves, and would then naturally go out into the general circulation. I think it is better to assume that they did perceive that that draining out of gold into the internal circulation was an inevitable consequence of the arrangements that were in force when they wrote their report. It is extremely difficult, as you will understand, to disentangle what they thought as to how the scheme that they put forward would be actually worked out, and how far they foresaw the way in which events actually did tend in subsequent years

558 In your opinion, then, is it a necessary consequence of the policy recommended by that Committee that the gold standard reserve should be available for both purposes—both for foreign remittances and for the feeding of the home circulation?—No, I do not say that. The second passage which you read referred, I think, not specifically to the Gold Standard Reserve, but to gold reserves generally. I should imagine what the Fowler Committee had in their mind was that the Gold Standard Reserve should be the one which was to be hoarded up by the Government as a Central Reserve for times of difficulty, but that other gold reserves should be used as the

paper currency reserve has actually been used for the other purposes mentioned

559 To hold part of the Reserve in securities was, I take it, a departure from the strict recommendation of the Fowler Committee?—I should not accept that view, if I may venture to differ. The matter has given rise to so much controversy that I should like to put forward my own view somewhat in detail. If you read not only the Report of the Fowler Committee but the many other papers that are before you regarding the Gold Standard Reserve, you will see that continually gold is used in two quite different senses—it is unfortunate that it should be used ambiguously, but there is no doubt that it is so used. One meaning, of course, is metallic gold, the other is sterling assets—including securities. Before I go on to say what I think the Fowler Committee meant, I would like to draw attention to one or two passages where gold is obviously used in the wider sense. In paragraph 70 of the Fowler Report\* they say that the Government of India should "restrict the growth of their gold obligations", it is quite clear that they did not mean obligations which were payable in metallic gold. What they meant was obligations incurred in the way you are familiar with, by issuing stock and taking cheques in payment for it, the interest on which is paid merely by dividend warrants in the paying of which not a single sovereign changes hands. That is one passage I would refer to as showing the wider use of the term gold, as meaning sterling assets including securities. Then I notice as illustrating the general usage in this matter, a letter from the Government of India which is printed in the correspondence I have handed in (No. 89, 1st April 1909, Appendix V, page 168). In paragraph 4 the Government of India submit a calculation of the sterling assets that they lost during the exchange crisis of 1907-8. The letter says "During the period from November 1907, when exchange first fell substantially below 1s 4d, until the end of January last we lost 15 millions of our gold," and then they give it under three heads—Gold Standard Reserve, Currency Gold in England, and Government Gold held in India. The two latter items call for no comment, as they were actually metallic gold. In regard to the first item, Gold Standard Reserve, the loss of gold there was really through the selling of certain securities and the using of the proceeds in order to pay certain bills. I know that in the whole of these transactions, which involved the payment, the Government of India say, of rather less than 7 millions but really of more than 8 millions, not a single sovereign changed hands. It was entirely what I should call a sterling transaction, but not a gold transaction. I draw your attention to that merely to illustrate that according to general usage gold has a double meaning—first metallic gold, and second sterling assets, including securities, cheques and so on. That is the only reason why I mention this point, but it is an important one. If you accept these two meanings of gold then the question is, did the Fowler Committee intend the narrower meaning of metallic gold to be put on their statement? One would naturally turn either to any record of their meaning or to anything that could be gathered from the opinions expressed by members of the Committee subsequently. As regards any record of their meaning I think you will find that there is nothing on the subject in their Report or in their evidence, because the Committee was considering quite different questions—whether the Mints should be reopened and whether the rate of exchange should be 1s 3d or 1s 4d, and this question of the formation of a Gold Standard Reserve was at that time an extremely unimportant one, and they gave very little time to it. My recollection, since I had some little share in drafting the Report, is that the instructions that were given in order that the Report might be drafted were that these profits of coinage were to be held in a sterling form and not in a rupee form, so that in case of a fall in exchange they could be realised in sterling and used in London. I may say that some time ago I asked Sir Robert

\* C 8990, paragraph 54

† H C 495 of 1913

‡ Appendix VI, pp 212-6

\* C 9590

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[Continued

Chalmers, who was the Secretary of the Committee and whom I helped in that matter, and his recollection confirmed mine. That I think is all that can be said about what the Committee as a whole did, but I should like to draw your attention to certain things said and done by individual members of the Fowler Committee since the Committee itself was dissolved. In 1900 the decision was taken by the Secretary of State to hold this Reserve in securities, not in metallic gold. At that time his finance committee, on whose advice he largely acted, included Mr Le Marchant, who was one member of the Fowler Committee, and Sir Charles Crosthwaite, who was another member. It is really inconceivable that if they had meant metallic gold in 1899 they should in 1900 have forgotten that, and have submitted to the Secretary of State a despatch in which, when he adopted it, he said to the Government of India the Reserve was obviously one which should be held in securities. That gives the opinions of two very leading members of the Fowler Committee, and I can give you the opinion of a third member who is of great eminence in these matters—Sir David Barbour, who recently published a book called the Standard of Value,\* which I dare say you have seen, dealing very largely with the history of Indian currency. Although I have not brought with me a passage to quote, you can see if you read that book that over and over again he refers with approval to what has been done in the matter of the Gold Standard Reserve as carrying out properly the recommendations of the Fowler Committee. I have given the opinions of those three members. As regards the others, I have not had any opportunity of acquainting myself with their views on this question, which has been raised comparatively recently.

560 In the despatch from the Secretary of State to the Government of India, dated 13th December 1900, in Appendix V, page 126, it is arranged that the profit on the coinage of silver should be at once remitted to London and held in London by the Secretary of State, can you tell me why the India Office rejected the suggestion of the Government of India that the gold should be held in India?—I think that in answering the previous question I summarised what I understood to be the effect of Sir Edward Law's scheme, and showed that I thought it would have frustrated the object with which this gold standard reserve was created and was to be held. I assume that that was what was in the mind of the Secretary of State when he rejected that scheme.

561 I think you have said that it was an objection, so to speak, personal to that scheme?—Yes.

562 Rather than to possibly holding gold in India under different circumstances?—Yes.

563 The system of remitting gold to England and investing it entirely in Consols was pursued from 1901 to 1903, was it not?—Yes, but of course it was not remitting gold, if I may correct you there. That, by the way, if you do not mind my saying so, is a very good illustration of how gold is used in a wider sense than that of metallic gold. These remittances, I think, were in some cases effected by the transmission of actual sovereigns but the more usual course is, and has been, to bring the money home by the sale of bills. The investment in Consols, I think was the only form of investment until 1903. In Statement C, which you will find at the end of Appendix III, pp 99-102, you will see that in 1901-2 Consols were bought, in 1902-3 there was a further purchase of Consols, and also in 1903-4, but that in 1903-4 a departure of some importance was made when National War Loan stock, which, as you remember, was a terminable stock, was bought instead of permanent securities.

564 At whose instigation was that change made?—My recollection is that the general change of policy, that is to say, the decision to put more money into terminable securities and less into permanent securities was made in a private and unofficial way by Sir Edward Law. He used often to write to me on these subjects, and he made the suggestion, and I put it before the Secretary of State. I cannot tell you the exact date of his letter, but it was about that time, I think

565 Do you happen to know whether Sir Edward Law had changed his opinion on the question of holding gold since those days? I have seen it stated that he did?—My knowledge is largely based on this. When Sir Edward Law was financial member his financial secretary was Mr Finlay, whose name I dare say you know. Mr Finlay was telling me some time ago that Sir Edward Law was quite content with the idea of holding money in securities, and he did not think there was any disadvantage in the putting aside of his original proposal to hold it in gold. That is merely information which I got in conversation, so it is not in the strict sense of the word official, but I think you may take it that it is correct.

566 To the best of your belief that was his opinion up to the end?—I believe so. I often discussed these matters with him because I knew him very well.

567 One of your tables, I think, shows the way in which you invested the gold standard reserve?—Yes, Statement C of Appendix III (pp 99-102).

568 Will you tell me briefly what were the proportions between the different constituent parts?—It is a little difficult to condense these statements, which go over many years, but I think I can best answer your question by saying that until 1906 the whole of the gold standard reserve was normally held in sterling securities in London. You will see in Statement A of Appendix III (page 97) that there were temporary holdings of gold in India, but that gold was held in India pending remittance to London. In 1906 the policy of holding a portion in silver was adopted, and finally of holding it in coined rupees. There is a long history attached to that which no doubt you will go into later.

569 The policy was adopted in 1906, you say, of holding part of it in rupees?—Yes, first in silver, half-coined rupees, and then in coined rupees.

570 And that portion of the reserve was held in India?—Yes. The next change, I think, was when it was decided in 1909 to hold about a million in what is called in Statement A of Appendix III cash at short notice, that is to say, money lent for a few weeks at a time on securities so as to be able to be called in very rapidly. The final change that has been made is that in 1912 the Secretary of State decided, for reasons which are given in the papers before you, to accumulate a certain amount in gold in London, and that accumulation is going on now. We have reached about 1½ millions, and the present intention is to allow it to rise to five millions. I have not given you the nature of the securities, I do not think at this moment you ask for that information.

571 No, that is sufficient for the present. In paragraph 3 of the letter from the Government of India of the 26th April 1906 (see Appendix V, page 137) it is stated, "The depletion of our balances in India also embarrassed the Secretary of State in England, as, for example, when we had to press you to transfer gold from Treasury to currency, though advised that the withdrawal of gold from the reserves of the Bank of England would be inopportune." That appears to be a suggestion that the interests of India at that moment had to be sacrificed to the interests of the London money market, have you anything to say about that?—I am very grateful to you for asking that question, and since it is a matter on which much has been said, perhaps you would allow me to answer it in detail. What happened on that occasion is set forth in a series of telegrams which you will find in Appendix V (pp 136-7) of which I should like to give you a summary—they are very brief. On the 15th December 1905 the Government of India telegraphed to the Secretary of State, asking him to transfer half a million sterling to his currency chest that is the operation which is commonly known as earmarking gold. The Secretary of State said that what was necessary could be done by transferring the equivalent amount of silver which he had bought for the Government of India, and was about to ship to them, but he said, if you require more than this half-million of silver I will transfer forthwith half a million in gold as well. The Government of India pressed that gold also should be transferred in accordance with

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[Continued

the Secretary of State's offer. They made their final request after some little consideration on the 19th December, and said that they were sure that the transfer of gold was necessary. On the same day on which the Secretary of State received that request he telegraphed out, "To-morrow I will set aside half a million of gold as you wish." Then on the 20th December he telegraphed out that he had done so. So that there was in no sense—and this is why I was glad that you asked the question—a setting aside of the convenience or wishes of the Government of India in the matter. As soon as the Government of India said that they could not conveniently do without this transfer of gold, the Secretary of State transferred it. Subsequently, in the course of the same busy season, he set aside nearly four millions of gold, so that what was required to meet the wishes of the Government of India was amply done.

572 Can you tell me whether in the first instance—I am not quite clear, listening to what you have said, whether you have already answered this—the Secretary of State did in fact object on the ground that the transference of gold from the reserves of the Bank of England would be inopportune at the moment?—In the course of the correspondence which I briefly summarised there appear these two sentences which I suppose I had better read, because they throw light on one another: "I am willing to make the transfer, as requested in your telegram of yesterday, at once if this is the only possible course. But as it is undesirable just now to withdraw gold from the Bank of England reserves, it would be better to postpone, or if possible to avoid, such transfer." That was the reason why for a short time he hesitated, but when he found that the interests of India as understood by the Government of India, required that the transfer should be made, then without any further hesitation he made it.

573 And even the expression of that hesitation was accompanied by an assurance that he would do it if the Government of India pressed him to do it?—Quite so, and he gave his reason merely because the Secretary of State always wishes to be very candid with the Government of India, and to let them know what is in his mind.

574 If you look at the same letter (26th April 1906, Appendix V, page 137), paragraph 9, you will see the Indian Government states "Our currency system is unavoidably artificial, and the profits arising therefrom should be primarily utilised, not in breeding interest, but in protecting it against the risks to which an artificial system is liable." Would you admit that that is a fair criticism of what had then taken place?—I do not think that that professed to be a criticism of what I was just describing. That is a statement which is made in support of the proposition that a part of the gold standard reserve should be held in rupees so as to avoid the risk of the Government of India being caught short of rupees. It is only to that point that that remark is directed.

575 But it perhaps has a wider application than it was given in that particular paragraph. If it is sound at all, does it not apply beyond the special purpose for which the Indian Government were then using it?—Certainly I do not think, if I may say so, that it applies to that particular transaction of the transfer of gold on which you were questioning me. I think that it is rather a wider and more forcible statement than personally I should make if I were asked to describe the Indian currency system, because I think, and these papers I hope will convince you, that the Indian currency system is as far as possible managed on automatic lines; that is to say, it is managed as little as possible and left to itself so far as may be. There is a certain artificiality in the sense that from time to time the Government has to take certain action, but to describe it as an artificial system in the sense that it is very much more artificial than, say, the English currency system, is, I think, not very completely justified. There is artificiality, of course, in the English system—great artificiality.

576 Does not the force of the criticism lie in the suggestion that this gold standard reserve should be

maintained in bullion?—It can be used as supporting that view, but it was originally used as supporting the view that it should be maintained in silver bullion. I do not think that the force of the argument depends—and perhaps I misunderstood you here—on the artificiality of the system. As the Government of India wrote it, they implied that there was a connection between the artificiality of the system and the maintenance of the reserve in silver bullion, where I had difficulty in following it was in seeing that particular connection.

577 Is it your view that it is not necessary to maintain any large proportion of the gold standard reserve in gold?—I would qualify that. I do not think that it is necessary to maintain a large proportion in gold provided that the portion that is in other forms is in forms in which it can be easily realised. If one had the choice between gold and securities of which the realisation might be difficult in times of stress, then I should say let it all be in gold.

578 In fact, if I rightly understood you, you would confine the holdings of the reserve either to gold or to short dated securities?—I should like to see it in that form. If there were any use in a reserve of 20 millions with 2 millions in Consols, I think it would be quite safe to have that kind of proportion, but I think it would not be safe in present circumstances to have a very large proportion of reserve in Consols. When I say Consols I mean similar securities such as Local Loans stock, Irish stock and so on.

579 That is to say, the highest class of securities with no fixed date of redemption?—That is so, or with no near date of redemption.

580 There is a question arising out of the correspondence of 1906 as to a temporary loan from the gold standard reserve. It seems to be rather an intricate transaction. Can you make clear to me what took place and what were the reasons for it?—I do not think that the transaction itself is very intricate. From time to time the Government of India has to make payments, mostly to meet Council bills or transfers sold by the Secretary of State beyond the amount that they hold in their Treasury balances, or that they can conveniently spare from their Treasury balances. In such times the usual resource is that the Secretary of State earmarks gold here, that is to say, transfers it to the paper currency reserve, thus liberating so much money from the paper currency reserve in India. That is the second method of meeting bills, payments from the Treasury balances being the first. There are times when even the second method cannot be conveniently used, because the London money market might be disturbed to an extent which would affect Indian interests. I mean, if the Secretary of State were issuing a loan or renewing debentures at that time he might say, It is a very serious thing to spoil my loan market by earmarking two millions or three millions of gold. In those circumstances he would ask the Government of India to make their payments to meet his bills, or for any other purpose, from the Indian branch of the gold standard reserve, taking the money as a loan. That is the practice which was followed for some years. The better course, I think, is that when the Government of India take money from the Indian branch of the gold standard reserve the Secretary of State should temporarily add a corresponding sum to the English branch so as not to deplete the reserve in any way. You will see in the correspondence in Appendix V that after seven years' pleadings with the Government of India the Secretary of State has induced them to accept that view. So that loans pure and simple ought not to take place in future, what ought to happen is that there is so much added to the London branch when the Indian branch is depleted.

581 Am I right in thinking that the effect of the old system was, in the first place to enable the Government of India to issue rupees to the public to the amount of the loan over and above the amount they would otherwise have been able to issue?—Yes, and that also is the effect of the new system. It adds an element of elasticity to the circulation in India.

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[Continued.]

582 The results are not affected by the change of procedure?—No

583 In a telegram dated the 14th February 1907 in Appendix V (page 151) the Secretary of State explains that his balances are earning  $4\frac{1}{2}$  per cent, would the India Office consider it a good reason for not repaying a loan in these days, if such a loan were made, that the sum lent was earning a high interest?—I think I can say with confidence that they would not consider it now a good reason, but I should like to say this, that at the period to which this telegram of 14th February 1907 refers the loan was actually repaid and gold was set aside. The Secretary of State's indication of his intention or his hankering after postponement of the repayment was not carried into effect.

584 In 1907 a report was submitted from a Committee on Indian Railway Finance,\* and as a result of that report a million or more, I think, of the money belonging to the gold standard reserve was applied to the purposes of railway extension, am I right in that statement of fact?—Certainly, except that it was actually used not for railway extension but for the purchase of rolling stock, but that is an immaterial point.

585 What were the reasons for adopting that course?—At that time the need for expenditure on rolling stock was very urgent. There was complete unanimity between the Secretary of State, the Government of India, and the mercantile community in India that a million pounds' worth of rolling stock ought to be got as soon as possible. It was not considered that it could be bought from the balances of the Secretary of State, and it was also not considered practicable to raise the money by means of a loan. India stock could not be issued because an issue had recently been made, and the objections to issuing India bills were held to be very strong. The general opinion at that time was that the exchange was in a very strong position, that the resources available for its support were quite adequate for their purpose—all of which is set forth in the Interim Report of this Committee submitted in June 1907 (see Appendix V, pp 156-7)—and that it would be on balance very much to the advantage of India to reduce the rate at which the gold standard reserve was being accumulated and to use this million of money for the purchase of rolling stock. I may say that I was a member of the Committee which made that recommendation, and we considered it, as you will understand, with very great care. We pointed out, as you will see here, how strong were the resources that were available for the support of exchange, they amounted to more than 23 millions and they were steadily growing. We came to the conclusion that there was enough to relieve us from any apprehension of a fall in exchange.

586 The Secretary of State, I think, went rather beyond your recommendation at the moment, and decided to do this not merely as a single exceptional transaction, but regularly to use half the profits on coinage for railway expansion?—Yes.

587 It would appear from the papers that you have submitted that the opinion of the Government of India was adverse to that course?—Yes, on the whole the Government of India were adverse, but their opposition has, I think, often been exaggerated. I should like to draw your attention to a letter in Appendix V from the Government of India of the 8th August 1907 (page 160). I wish to draw your attention to two points. The first is in paragraph 3 of that despatch, in which they say, "We accept your decision, although some of us entertain doubts as to its expediency." It was not a unanimous Government of India that was opposed to the action taken by the Secretary of State. The other point to which I should like to draw attention is that, as shown in paragraph 2 of that despatch, the Government of India by a coincidence were, at the time that this Committee reported, considering and indeed accepting the advisability of limiting the growth of the gold standard reserve. They had actually, as you will remember, in the previous year diverted a considerable sum from the gold resources on the

sterling resources so as to build up the Indian branch, and then they were proposing that the sterling investments should continue only until they reached 20 millions, and that after that figure had been reached the investment of the profits on new coinage should come to an end, and that then the profits, being diverted from the gold standard reserve proper, should be used for railways. So that the minds of the Secretary of State and his Council and of the Government of India were moving in the same direction.

588 So that you would say there was no difference of principle between them, the point on which they differed being the exact time at which the operation should begin?—Yes. Of course they would have said, and it is fair to them to mention it, that the difference of detail was to them a very important one.

589 The transaction bears a certain resemblance to one we sometimes see in this country, where the Chancellor of the Exchequer, being in need of some sum for immediate objects, finds admirable reasons for reducing the Sinking Fund?—Quite so, and I think it ought to be criticised on much the same ground. Everyone is familiar with the phrase that is so often thrown at the Chancellor of the Exchequer, that he has raided the Sinking Fund. It is implied without further consideration, that he has done an improper act, whereas I think those who follow imperial finance more carefully know that sometimes it may be an unwise thing, and sometimes it may be a very wise thing, to raid the Sinking Fund in a particular year.

590 Would you agree in regard to this Indian transaction that the onus of proof very definitely lies with those who wished to divert?—Yes. The justification that our Committee put forward in support of its much smaller proposal was, first, the admitted urgency of the additional rolling stock, then the difficulty of providing it by other means, and, thirdly, the position of safety that had been reached in respect of the safeguarding of the exchange.

591 Do you think that your Committee or the Secretary of State would have come to exactly the same conclusions if they could have foreseen the stringency of the crisis which took place, I think, about six months later?—I think they would have. It is very difficult to dogmatise, and you will not expect me to dogmatise in answer to such a question but what actually happened six months later was that there was an extraordinarily severe reversal of the usual favourable balance of trade, and that, without any difficulty worth mentioning, the tendency to a fall in exchange which arose from that reversal was met, and amply met, and exchange was, to all intents and purposes, maintained. It is true that, owing to the fluctuations of circumstances, the exchange did fall below the gold exporting point for some days, so that to that extent exchange, in the strictest sense of the word, was not maintained, but I think it would generally be held that the business of maintaining the exchange was successfully performed, and that the Secretary of State was by no means at the end of his resources for that purpose.

592 I was led to ask you that question because I noticed that in the Secretary of State's telegram of the 2nd July 1907, which is given in Appendix V (pp 158-9) he states, "The danger, which you allege, of a fall in the rate of exchange, I regard as illusory, having regard to the present conditions of trade."—I noticed that telegram, and I looked up the records relating to it. The telegram might easily be understood as meaning that the Secretary of State committed himself to the view that there was no danger of the occurrence of unfavourable trade conditions such as in the absence of special support would lead to a fall in exchange. If he had said that, his remark would have been very risky and indeed rather ridiculous. I find on looking at the papers that what he intended to convey was this—that the existing supports for exchange were adequate, and that the danger that they would be inadequate if one million pounds were spent on the railways was illusory. That view which the Secretary of State meant to convey was justified by the events of the crisis which occurred six months later.

\* Cf 4111, and Appendix V, page 156 (Interim Report).

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593 When was the decision to use half the profits on coinage for railway purposes withdrawn?—It had undergone a process of gradual modification

594 It has finally ceased now, has it not?—It has ceased until the 25 millions shall be accumulated in the London branch of the gold standard reserve

595 What was the date on which it was decided to withdraw no more until that figure of 25 millions should have been reached?—That was a recent decision of 1912 You will find it in a despatch of the Secretary of State dated the 28th June 1912 in Appendix V It is the last sentence of paragraph 5 on page 202

596 Up to that date about what amount had been withdrawn?—About 1,100,000l The only withdrawal that took place was the one in 1907, which occurred immediately on the report of that committee

597 You have given us in a paper which you have circulated, an account of the financial crisis of 1907-8 (see Appendix III), I do not want to ask you to go over in evidence all that you have written, but I will just ask whether there is anything you would like to say supplementary to what you have written either as regards the history of the crisis or the measures adopted to meet it?—I think it is given so fully in my statements and in the correspondence in Appendix V that there is very little that I need say I do not know if at this point I should draw attention—I should like to do so at some stage—to the exceptional severity of the crisis I think that is a point which has been almost universally overlooked, except in the India Office, and I attach myself the very greatest importance to its being properly understood In a small paper of mine, headed Supplementary Statements to Accompany Memorandum on Gold Standard Reserve (see Appendix IV), I give certain particulars (in Statement, page 107) regarding the balance of trade in calendar years I did so in financial years because that is a conventional way of setting forth these figures, but it is a very misleading way, because very often you have a financial year the first half of which is very good and the second half of which is very bad, but the badness of the second half is obscured by the goodness of the first half So that, in order to get to the real nature of the crisis in 1907-8, in Statement 3 I have amplified some figures, which are already in the correspondence, for a smaller number of years, taking the period from the Autumn of 1907 to the Autumn of 1908, which was really the period over which this crisis extended and comparing the balance of trade for that period with the balance for the corresponding period of each year from 1892-3 to 1911-2 I would draw your attention to this, that although in these years, as indicated by the asterisk in the last column of the table, there were many famines, there was no year except 1907-8 in which there was not a very considerable favourable balance of trade If you eliminate 1907-8 you find that the worst year was 1896-7 when there was a favourable balance of nearly 13 millions, and that the other years show much larger favourable balances In this solitary year, 1907-8, you have an unfavourable balance of 1 190 000l which is to some extent, due to the fact that silver was very cheap at that time, and India imported very large quantities of cheap silver I think that that really is one very important fact relating to the history of that period which is not brought out in the correspondence or in my continuous memorandum, so I should like to draw your attention to it

598 Will you state the inference you draw from it?—I draw one inference only, as shown in various passages in the memorandum, that when one is calculating how large the gold standard reserve ought to be in order to provide reasonable security for maintaining exchange at any future period of adverse trade one can, on the basis of these figures take 1907-8 as being as bad a period as it is necessary to provide for

599 Was 1907-8 a famine year?—It was to some extent but it was not as bad a famine year as many of the others which I have marked with asterisks I daresay you remember that at the end of 1907 there occurred what was called the American crisis when a panic fell on many depositors in America and they took

then money in gold—real metallic gold this time—and hoarded it

600 There was not any war in India in that year?—No, it was a time of peace It was a time of famine, not very bad or extensive famine, but above all things—and this was the important fact—it was a time of the most profound industrial depression all over the world, and it was also a time when the Bank of England rate was very high

601 Suppose that that general state of affairs were to coincide at some future time with a really severe famine in India or even with such a year as we have seen in India occasionally in the past, when there have been both bad famine and war, would you still say that 1907-8 is the measure of the utmost that you have to guard against?—Of course no one would say that there could not possibly be a worse year, but in these matters I think it is generally agreed that provision ought to be made for what, on the basis of experience and of any corrections of experience that prudence suggests, may be considered to be the utmost limit of danger I ought to mention to you that in these years which are shown in my table there have been years in which there have been simultaneously famine and war I do not mean war on a very great scale, but very important frontier campaigns I think you will find if you look at Statement 2 of Appendix IV on page 107 that famine and the second Afghan war were synchronised, I think in 1878 the Afghan war had begun, and that was certainly a famine year

602 And it was a bad year, of course, as shown by your figures?—Yes

603 I merely put to you that no doubt the American crisis and its results were extremely severe, but that the local Indian crisis was not as severe as many that had been known in that country What I was suggesting was that to take the standard of that year, the standard fixed as what was necessary for that year, as the standard for all years, might be insufficient if a grave famine in India coincided with a similar world crisis?—As a general proposition, of course I could not possibly dispute that, but I would dispute that if, as business men do, one allows for such difficulties as are likely to occur and makes a fairly liberal calculation of the extent to which past experience suggests difficulties then one has gone as far as prudence suggests, more especially because, supposing that there was an under-calculation of real difficulties but that one had 25 millions as one's gold standard reserve intact at the beginning of a particular exchange crisis, no one doubts that the using up of that very large sum of money, together with the gold in the paper currency reserve, would very seriously stem the crisis, and that a great deal would have been done by way of contracting the currency and by other methods to reduce the residuum of the crisis still to be faced, and at a time like that one would no doubt be able to borrow, if it were necessary, to make more funds available Since this kind of calamity might happen perhaps once in 50 years, or once in 100 years, it is important not to immobilise a large sum of money for so long a period in order to meet so improbable a contingency

604 At the same time, if you profess to create a reserve you would agree would you not, that it is very desirable that it should be sufficient for the worst contingency that you may reasonably allow for having to meet?—Yes that is a formula to which I should willingly subscribe, and I should supplement it by saying that these figures in Statement 3 on page 108 are an excellent guide as to what is the extent of that contingency

605 Speaking generally of the correspondence between the Secretary of State and the Government of India, am I right in thinking that in the earlier years the Secretary of State overruled the Government of India perhaps in the most important points on which the two differed but that in the last two years or so the correspondence discloses a compromise in which the Secretary of State has given way, to some extent, on such questions as holding a portion of the reserve in London in a more liquid form and the Government of India has waived its wish to have more of

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the reserve located in India itself?—Yes, I think there has been an approach towards unanimity in the matter.

606 To go to another question, I want to ask you a little about the coinage of rupees, how is it determined when rupees are to be coined, and to what extent?—That, of course, is set forth at great length in the correspondence, but it has not been summarised in any memorandum. Perhaps I might build up my remarks round a certain nucleus, namely, the memorandum which was sent out by the India Office in 1910 (See Enclosure to Despatch to the Government of India No 25, of 18th February 1910, in Appendix V, pp 188-94).

607 I do not so much want the whole history of what has taken place as the result?—The result, as you will see from that memorandum, is that we have now adopted this standard—that at the beginning of the busy season which we take to be the 1st October, we ought to have in the paper currency reserve and in the Indian branch of the gold standard reserve combined 24 crores of rupees, that is to say, the equivalent of 16 millions sterling, and that that should be allowed to decline gradually to 17½ crores of rupees by the 31st March, which is the conventional end of the busy season—of course, it is not a very exact date, but it serves usefully, and that in order to prevent the stock falling below 17½ crores by the 31st March, new coinage ought to be undertaken during the busy season to the extent that is necessary, and then if the year ends with 17½ crores, that is to say, if that is the amount on the 31st March, coinage ought to be gradually undertaken during the summer to the extent that seems likely to be necessary to fill up the reserves again to the higher figure, the 24 crores. There is always some uncertainty, because in the summer sometimes rupees flow out from the reserves into the general circulation and sometimes they flow back again.

608 Are the variations in the public demand very great from year to year?—They are enormous. I have some figures here that I got out for another purpose, and I think they are very surprising. I do not think you need the figures year by year, but I will just take the two extreme figures. In 1907 the public demand for rupees, that is to say, the absorption of rupees, was 8,120,000 in the calendar year, and in the year 1908 there flowed back from circulation into the reserves, 12,300,000. The difference between those two extreme years was a difference between, as we put it in our statements, + 8,000,000 and - 12,300,000, that is to say, a difference of over 20 million sterling. That you will easily understand is a very important fact in all the management of the Indian currency, that we are liable to these vast fluctuations in demand.

609 By what considerations are the Government influenced in the purchase of silver for rupee coinage?—Only such considerations as flow from that empirical rule that I mentioned to you. We try to have our 24 crores at the beginning of the busy season to prevent our stock from falling below 17½ crores at the end of it, and then if it does fall as low as 17½ crores, to build it up again to 24 crores by the beginning of the next busy season. I ought to have mentioned to you that this is a very recent rule, and, if I may say so as a member of the India Office, it has been very useful because it prevents purchases being made either too sparingly or too abundantly, and both extremes have been reached in the past.

610 It has led, on the other hand, has it not, to purchases of silver not being made at all for some time?—It has.

611 And then to very large purchases being made in a very brief time?—It has not led to larger purchases being made in a brief time than was customary under the old system. Both under the existing rule and under the previous system large purchases were made in a very short time.

612 It must necessarily be the case, must it not, if you wait to purchase until your needs are very great that the market will have knowledge of those needs, and that there would be a natural legitimate tendency on the part of the market to use that knowledge against you?—We try not to let ourselves

be caught very short of rupees. Our minimum of 17½ crores is a very ample minimum, and supposing that at some time we had to let this stock go down to 15 or even 12 crores, the system would still be workable.

613 Have you ever considered whether it would be possible to buy steadily in small quantities instead of waiting until you had a large demand?—Yes, we have often considered that, and I think the answer to it in its briefest form is in those figures which I gave you—the figures of very large fluctuations. I have the figures for various years showing the amount of rupees held. In the year 1909 the largest amount held at one time was about 49 crores of rupees, and the lowest was about 89 crores of rupees. Both of those figures were very much above the estimated maximum of our requirements. Supposing that when we have held those very large sums we had bought silver, say, at the rate of two millions a year or at any figure that had been fixed as the steady annual purchase, that would have been open to two objections, first, it would have been in itself rather foolish to buy more of an article of which you already had far more than you needed, and then there is a much more serious objection. Supposing one had spent two millions on buying this unnecessary silver, and then just after that there had been a deficient monsoon or an American crisis and the exchange had tended to fall, it would have been most unfortunate that two millions of sterling resources, which in happier circumstances could have been used to meet the fall in exchange, should have been rendered useless for that purpose by being locked up in silver in India, because in such circumstances the money would have been locked up and one could not have turned it into the sterling resources and got it back and used it to support the exchange.

614 The Committee of 1898 recommended among other things that the Indian Mints should be thrown open to the unrestricted coinage of gold, will you tell us what has been done in respect of that recommendation?—The full information, as no doubt you are aware, is given in a paper which was presented to Parliament in 1913,\* and I have tried to summarise it in a memorandum headed Note on Proposals for the Coinage of Gold in India (see Appendix VI, page 213). I think I could very briefly give you the main facts. From 1899 to 1902 we were in continual correspondence with the Treasury and with the Government of India, with a view to having a branch of the Royal Mint established in India. There were a good many technical difficulties, but they were not very serious and they were all got over in course of time. I think that possibly a Mint would have been established in 1902, only the Government of India wrote to the Secretary of State a very important letter withdrawing the proposal.

615 Which letter is that?—You will find it on page 56 of the Parliamentary Paper,\* and it is dated 25 December 1902. They refer to certain criticisms, and then they go on "We have now ascertained that the chief mining companies have made arrangements with which they are at present satisfied for the regular sale of their gold in London, and we are doubtful whether any terms that we could offer with a due regard to our own interests would induce them at an early date to alter those arrangements and to bring their gold to the Mint in Bombay. In the absence therefore of an assurance that a steady and permanent supply of gold of local production would be available for coinage in this country we prefer to drop the scheme for the present, leaving its revival to the existence or the revival of conditions which cannot at present be foreseen." In view of that, the Secretary of State had no alternative. He had to drop the proposal, and it remained in abeyance until it was raised in the first place in a debate in the Legislative Council in India in 1911. There was a further discussion in same Council in 1913, and as the outcome of that the Government of India revived the proposal in a letter which is printed on pages 57-63 of the Parliamentary Paper.\* They proposed that a Mint should be set up in Bombay on a very small scale, and they do not seem to have very much considered the question of

\* H C. 495 of 1913.

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the arrangements that were necessary under the British Coinage Act of 1870, that is to say, to bring an Indian branch mint into proper relation with the British Government and the Master of the Mint in this country. We found when we wrote to the Treasury that the very modest, inexpensive scheme of the Government of India was not really practicable. Their idea was to set aside a portion of the Bombay Mint, a room probably, to have a refinery and to coin sovereigns, and to let the staff of the Bombay Mint do the work when they were not coining rupees, but the Treasury insisted that whatever mint was used for the coinage of sovereigns must be under the control of the Treasury.

618 (Sir Robert Chalmers) That was under the provisions of the Coinage Act of 1870, was it not?—I think that is so. I fancy the Treasury could have agreed to a scheme under which each officer of the Bombay Mint would have had two masters, namely, the Government of India for rupee purposes and the Imperial Government for sovereign purposes, but the Treasury, for reasons which I quite appreciate, did not accept that view.

617 (Chairman) Would the Treasury objections apply equally if an Indian mint were to coin a special gold piece, not sovereigns?—No, the Treasury would then have no jurisdiction. It was for that, among other reasons, that the Secretary of State suggested as a way out of the difficulty that a special Indian gold piece might be coined instead of the sovereign.

618 Suppose a gold piece were coined for India or sovereigns were freely coined there, can you give me any indication to what extent, in your opinion, these gold coins would be likely to remain in circulation?—It is very difficult to say how far the sovereigns now in India, which amount to an enormous total, are in circulation, and how far they are used for other purposes or have been melted, but there are some figures on the subject, and I dare say many of them are familiar to you. There is one table in paragraph 8 of Appendix VI on page 214 which gives some information which I do not think has ever before been published in the form in which I have given it. I should like to draw your attention, first of all, to the amount of sovereigns issued to the public. You will see that the amounts have been very large in recent years, in 1912-3, for instance, they went up to 21,815,000. The figures, which have not been published, are these receipts from the general public, namely, the second line in the table, nearly 7,000,000 in 1911-2 and more than 11,000,000 in 1902-3. That shows that there is a very considerable flow of sovereigns both out of the treasuries and reserves into the possession of the public and also in the other direction. These figures, therefore, indicate a very considerable use of sovereigns as currency. But it is quite possible that the large amount that comes into the Government treasuries and reserves from the public may indicate that many of the sovereigns which go out to be used for currency have very short lives—I mean the Government might pay out a sovereign one day, and then the same sovereign might come back again the next day. I do not say that that is so, that is merely one of the illustrations of the difficulty of arriving at any conclusion on such a matter.

619 I should now like to ask you whether you would agree with the opinion expressed by the Fowler Committee that India should aim at the possession of what they call the normal accompaniment of a gold standard, namely, a gold currency?—My own opinion—I do not say that any weight should be attached to it—is that on the whole it is a good thing that India should have a gold currency. I think it is far less important than that she should have a great central stock of gold to be used for the support of exchange, I think that is her greatest need in respect of gold, but her second need, I think, is that the people should have gold if they want gold. It is a curious fact that many people who have to use money in the course of their business have an extraordinary affection for the use of gold money, and I think that people in India, like people elsewhere, if they want gold money and can pay for it in produce or can acquire it honestly should have

the opportunity of acquiring it. Indeed it is inevitable, you cannot prevent people from having gold if they want it.

620 Is there any indication, in your opinion, that they have difficulty in getting it now if they want it?—I should think there is very little difficulty when one considers the vast amounts that have been paid out into circulation in India, and the very large amount, as mentioned in one of my papers, that is still held on offer for anyone who wishes to have it. I should think it ought to be quite easy for anyone in India who desires gold to get it. Sometimes friends of mine who have been in India grumble and say beyond a certain amount they find it a little difficult to get gold, but then I fancy that they must be referring either to very large amounts or else to periods when from one reason or another the Government stock has sunk rather below the normal level.

621 If they were referring to very large amounts, that would be an experience which they might easily have under certain conditions in Europe, would it not?—Quite so. I remember one friend of mine told me that the ruler of a native state in the West of India with whom he was well acquainted sent down to Bombay to change many lakhs of rupees—a lakh of rupees is roughly 7,000—into sovereigns, and the messenger whom he sent could only bring back sovereigns on that day for half the amount, and he had to wait for the other half. When you are dealing with several lakhs of rupees it is not a very strange thing that you do have to wait for a little time.

622 We have had referred to us similar questions in regard to the paper currency reserve. I understand that one of your colleagues in the office is going to give us evidence on that point?—Yes, Mr. Newmarch has submitted a memorandum\* which contains, I think, very full information. If there is any point on the subject on which you would like to question me, of course I would answer to the best of my ability, I have been familiar with it for a good many years.

623 I think I need not trouble you under the circumstances at present, but possibly other members of the Commission may wish to ask you some questions. Practically the system which is established in India is what is known as a gold exchange system is it not?—It is more than that, I should say. I think the ideal gold exchange system would be a system under which there were central stocks of gold under the management either of the Government or of a very responsible central bank with little or no gold in circulation. The Indian system departs from that in that it tends to encourage, and has, I think, effectively encouraged, a certain circulation of gold, though, as I explained, I cannot say to what amount. It is on its way towards becoming a combination, I should say, of a gold exchange system and a gold currency system.

624 In so far as it is a gold exchange system it economises the use of gold, does it not?—Yes, it does to a considerable extent.

625 Might it not be thought that it is in the interests of India to economise the use of gold?—I do not know that it is of so much importance to India, at any rate it is not of more importance to India than to the rest of the world that the use of gold should be economised. The view has been held that gold ought to be used freely because there is too much of it. I think that India must arrange her currency system in accordance with the wishes and convenience of the people concerned without thinking too much of the wide reaching economic effects.

626 I think you are probably right in saying that the Indian public must have what the Indian public needs. I was rather asking you whether the Indian Government had an interest as distinct from Indian individuals, that is to say, whether India as a whole had an interest either in encouraging the use of gold or in discouraging it?—I think that the Indian Government as representing simply the interests of the Indian people, have an interest in conserving the central stock of gold or of sterling assets, so

\* See Appendix VIII, page 239.



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that it may be strong enough to meet emergencies. Subject to that, I do not think there is any reason, from the point of view of the Indian Government, why gold should not be freely used by the people of India.

627 It has been suggested in a criticism which I have seen of the present Indian arrangements that the keeping of gold in London tends to make it rather a reserve for the London money market than for India, that is to say, that London discounts the presence of this gold, that the London position is the weaker in consequence, and that that injuriously affects India?—I do not think there is any substance in that. Of course the influence which would at any time be exerted on the Indian stock of gold held in England would be the influence of the Bank of England and of the joint stock banks, and I am quite sure that they would never count on the use of Indian gold in an emergency or desire in any way that their wishes should be consulted. They know that the Secretary of State has to be adamant in his resolution to think only of Indian interests in these matters, and that he is adamant.

628 I go now to the allocation of the reserves. I gather from Appendix III that in your opinion London is clearly the right place to hold, at any rate, the major portion of the gold standard reserve?—Yes.

629 The objection to it is perhaps rather a political one, namely, that Indian opinion largely feels that that is some disadvantage to India?—What view is held by Indian opinion as a whole I cannot say. There was a proposal made in the Indian Legislature Council that a considerable portion should be held in India, and it certainly was supported by many members, but whether Indian opinion generally, that is, the opinion of the great Indian public, concerns itself with this matter, I cannot say. In the Indian newspapers I find very little on the subject except when particular writers who are interested in the matter are writing very freely.

630 One of your reasons for objecting to having more of it held in India is the difficulty of earning interest on it?—Yes, that is one reason.

631 Am I right in thinking that though that is a strong reason with you it is not your principal reason?—The main consideration, I think, is that the reserve, wherever it is held, should serve the purpose which it is intended to serve. I think holding the reserve in London does tend to ensure that the sterling portion of it shall be used for the purpose of supporting exchange.

632 Then your argument is that when needed for the purpose of supporting exchange it is needed in London?—It is needed in London.

633 Therefore it had better be kept where it is needed?—Yes.

634 And that has the incidental advantage of enabling you to earn interest on it to a larger extent than would be the case in India?—In India you could scarcely earn interest at all. If it were held in India it would have to be held in gold, I think.

635 I think you have already said that you would like to reduce the holdings of Consols and such like securities which are not repayable at a fixed date?—Yes, I mentioned in a marginal note to paragraph 6 of Appendix III (page 88) that after 31st March, which is the date to which the statements go, we sold Consols for half a million and bought short-dated securities in their place.

636 Now if you have very large holdings of short-dated securities would you always be certain that you could realise them?—I think so.

637 The presumption being that the moment at which you want the money is the moment of what I may call international money stringency?—It might be or it might not be.

638 Assuming the case that it was, assume a crisis like 1907?—In 1907 we had to take from the gold standard reserve, roughly, nine millions, not only had we no difficulty in getting that nine millions, which mostly came from realising securities, but we had arranged to sell more securities. We had to cancel, or we did cancel, whether wisely or not, the sale that we had arranged, so that we were in no way held up by the difficulty of realisation. Since then—and that is a good

basis of comparison, because there was a very bad crisis at that time—the whole reserve has come into a much more realisable form, and if we had to present our six months' treasury bills I do not think anyone can doubt that if they were then due they would be paid, or if they were some months short of being due that the Bank of England would discount them for us at a proper rate. Our next line of defence would be exchequer bonds, which would have perhaps two years to run. I do not think there is any reasonable doubt that we should be able to realise our exchequer bonds. Then there are other bills which have been issued by Colonial Governments, and I cannot conceive that we should find difficulty in realising them.

639 Do you consider that you ought to hold any fixed proportion of the gold standard reserve in gold itself?—I think the real argument for holding a certain amount in gold is an argument which is set forth in one of these papers that, unfortunately from our point of view, perhaps fortunately from the national point of view, the supply of short dated securities is very likely to decrease. It is the policy of the Treasury, and it has been for many years, since the end of the Boer War, to reduce the amount of Treasury bills in existence, and it is quite possible that 10 years hence there may be no Treasury bills. I think the real reason for holding any gold is that we may be unable to find short-dated securities sufficient for the purposes of the reserve.

640 As long as you can find short dated securities you personally do not think it of importance to hold any part of the reserve in gold?—No.

641 Of course, if you hold very large sums in Treasury short dated securities the moment at which you would wish to realise them would be the moment when it would be most inconvenient to the Treasury to pay off those bills instead of renewing them?—Fortunately for us the Treasury has no option in the matter. If we present our bills and say we want our money, then it is for the Treasury to issue corresponding amounts to the public in order to find the money to pay us.

642 The Treasury would be obliged to pay you, would it?—Yes.

643 But the effect on the money market might be very considerable?—Yes.

644 The Treasury might have to borrow such amounts at very considerably enhanced rates?—As far as we were concerned, we should get our money back at par.

645 I agree that India, of course, would get her money back, but what I was coming to was that the result of her suddenly demanding this large sum of money at a time when it was very inconvenient to find gold would have no direct effect on the repayment, which would be certain, but might have an indirect adverse effect upon her trade?—It might.

646 It might help to produce a stringency which might be very injurious?—Yes. May I however mention a point which is really of great interest in its backward illustration of a question which you put to me at the beginning? You spoke of gold having to be found at a particular moment, and of the stringency that might be caused thereby. I do not know whether you, like the Fowler Committee, use gold in the wider or in the narrower sense, but if you use it in the narrower sense then the point which you raise suggests this observation to me—that no need for actual gold arises when India has to realise her Treasury bills and meet a fall in exchange. All that India has to do is to make the payments in what is commonly called bank money, and that fact, very curiously, critics of our Indian system have frequently overlooked, it is a fact of the first importance.

647 As the volume of Indian trade increases must not the gold standard reserve increase in some proportion to it?—It ought to go on increasing, and whenever the Secretary of State has thought of the matter he always had some scheme for enabling such an increase to be effected. One method is to add all the interest on the investments, if any of it is still held in investments, another thing that can be done, and which is always proposed or generally proposed, is that at the time when the whole profits on coupons cease to

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[Continued]

be added to the reserve, a proportion of them, say a half, should go on being added, so that there would be a continual growth of the total of the reserve.

648 In considering these different alternatives has anything like a principle been evolved which should govern the amount to be aimed at?—No, I think that the facts are so uncertain that it would be impossible to arrive at a principle. Of course you know that particular figures have been adopted—the 25 millions, for example.

649 Yes, that is adopted on a general survey of the situation, but there is no principle that would lead to the expansion of that sum in any definite proportion to the development of Indian trade, is there?—No, it is very uncertain. If a great part of it were held in securities one sees how much would year by year be added by way of interest, but how much would be added as representing, say, half of the profits on coinage one does not know, because in many years there would be heavy coinage, and in other years there would be no coinage at all.

650 As regards the Indian branch of the reserve, I have read your statements in Appendix III on this subject (pp 94-6). Am I right in thinking that in effect it is really a sort of additional paper currency reserve?—I think roughly it may be so described. Of course every analogy fails at some point, but it serves very much the purpose that would be served by an addition to the paper currency reserve.

651 Might it not be desirable to increase the paper currency reserve instead of keeping the Indian branch of the gold standard reserve?—That would not quite serve the same purpose unless other alterations were made in the rules regarding the paper currency department. I should like to explain that particular difficulty, if I may, as it is a little intricate. If you have rupees in the paper currency reserve you can only take them out either when you cancel the notes or when you substitute sovereigns in the reserve. There are only, if I may put it metaphorically, two keys which fit that particular lock and enable you to get your rupees. This holding of the rupees in the Indian branch of the gold standard reserve is guarded by a lock that can be opened much more easily. One can simply take a loan and repay it when convenient, or one can take the money out and against it merely invest in securities in England. It is very often easier to get at those rupees, I mean quite legitimately and properly, than at those of the paper currency reserve.

652 It is an extension of the uses of the gold standard reserve beyond anything contemplated by the Fowler Committee, is it not?—Yes, it is quite a new departure. I need scarcely do more than say, in passing, that the Fowler Committee dealt very fully with the problems which had arisen when it was appointed, but, naturally, they could not deal with problems which had not then arisen.

653 It is the diversion of a portion of the gold standard reserve from its primary functions?—Yes, it is.

654 You find a necessity, and as you have the gold standard reserve you apply that to meet it?—Yes, and that was done. I may say here it is one of the subjects on which there has been extraordinary unanimity between successive Secretaries of State and successive governments of India.

655 Has there been no difference of opinion between the Government in India and the Government at home?—On very small points there has been, but in substance they have both agreed that this rupee branch of the gold standard reserve should be maintained. As regards the exact method of using it, there have been some differences which I think have been unduly magnified, and in any case they have ceased now.

656 (Lord Kitchener) Will you be so good as to tell me this—I ought to know it, but I am not quite sure. Can gold be demanded for rupees at the rate of 1s 4d, or is that standard kept up by the favour of the Government?—It cannot be demanded. The Fowler Committee considered that among other questions, and rejected the proposal for complete legal convertibility. The practice is that when the Government has gold in

India, as it usually has, it gives it out freely at a particular rate, 15 rupees to the £, and in addition to that, when the state of exchange is unfavourable, it sells sterling exchange on London for rupees. In those two ways it provides what is an approach to convertibility, but not absolute convertibility.

657 Should I be wrong if I said, under those circumstances, that if gold cannot be demanded at the rate fixed by the Indian Government—that is, at 1s 4d—that means that the currency in India ultimately has a silver basis?—I do not think so. It would be on a silver basis if the owner of the silver had the right to bring it to the Mint to be coined, and in that case, of course, the circulating value of the coin would be equivalent to its intrinsic value. Now there is no such right, and the circulating value of the rupee differs very greatly from its intrinsic value. I believe there is only one important country now on a silver standard, namely, China. Before 1893 India was on a genuine silver standard like China.

658 You rather surprised me by not appearing to think there would be very much difference between holding sterling securities and metallic gold, am I wrong in saying that you do hold that opinion?—There are differences, and obvious differences. In what connection did I say that?

659 Suppose to day, instead of holding metallic gold in India you hold a part of your reserves, say, 10 millions, in sterling securities, and it became necessary for you, in order to support the relative value of the rupee at 1s 4d in India, to sell your 10 millions of sterling securities in London and get gold for them, do you think you could do that in London to day without an enormous disturbance of every market in the world?—First of all, it depends on what securities one holds.

660 I will give you the best security in the world—Treasury bonds?—When you say gold, what do you mean?

661 Raw gold, metallic gold?—There is no need to have metallic gold for our purposes. I mentioned that to the chairman, and he did not press me to pursue the point, but if I may be allowed I would like to explain it, because it is a point of the very first importance.

662 If you please, it would be very interesting?—May I explain to you what are the circumstances in which we have to use our gold standard reserve? Ordinarily, as you know, India has a favourable balance of trade, and there is no difficulty for any person in India who has ordered goods to be imported on his account to get sterling exchange in order to pay the vendor, but occasionally, perhaps once in 10 years, or once in 20 years, India has an unfavourable balance of trade, and then it is quite difficult for the Indian importer to pay the vendor from whom he has got his Manchester goods, or whatever it may be. It is then, when the holder of rupees is looking about for sterling in order to pay his debts to his creditor in Manchester, that a fall in exchange occurs. I hope I have made that clear.

663 I see that with the foreign trade of India, but I will put it in this way. Suppose in days to come the holders of rupees in India desired for some reason or other, which I need not enter into, to turn their rupees into gold at the rate of 1s 4d, could they say to the Government of India you must find us the gold?—We have never accepted that position.

664 How are you going to keep the exchange up if you are going to say, when gold is asked for against your silver at 1s 4d, you will not give it?—The rate of exchange is, as you know, a rate of international exchange, and when one speaks of the French exchange, the German exchange, and so on, one means the ratio between the currencies of two particular countries. I think you accept without further question my explanation of how it is in the case of the external trade.

665 I do quite?—I do not think that there is any country in the world that has ever undertaken the further obligation which you suggest, namely that it should give silver to anyone who brings gold, and gold to anyone who brings silver. This might interest you. A scheme for doing that, and setting up what is known

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as a bimetallic shop—selling silver for gold, and gold for silver—has appeared once in a very interesting economic work, *The Theory of Bimetallism*,\* by Sir David Barbour, who is an old friend of many members of this office. He suggested that as a sort of type of what perfect bimetallicism would be, but, according to my recollection, even he, enthusiastic bimetallicist as he was, never contemplated that any one country should ever set up a bimetallic shop on that basis, because it would break the greatest and most wealthy country in the world.

666 My suggestion is that you are on a gold basis in India, really. You have practically put yourself on a gold basis in India, I should have thought, by saying that you will pay 1s 4d for a rupee. Does that not put you on a gold basis practically? I know that you cannot run gold and silver at a fixed exchange together, but let me put it as plainly as I can—do you want to pay for the rupee at 1s 4d in gold, or do you not?—Do you mean to enter into a legal obligation to do so?

667 I do?—Then my answer to that is very simple—that we do not wish, and no one of the authoritative bodies that have looked into the Indian currency has ever proposed, that such a legal obligation should be undertaken, and also, if you do not mind my repeating it, it would be unique in the history of the world.

668 (*Su Robert Chalmers*) Can you get Napplesons for 5 franc pieces in France?—If you pay for them I imagine you can.

669 But not by law?—Not by law at a fixed rate.

670 Or can you turn the silver dollar in the United States into gold at your own option by right?—I believe not.

671 Can you get a sovereign by law for 20s?—No.

672 Do you know of any circumstances by which you can perform that operation by law?—No.

673 (*Lord Faber*) In all those countries the silver is merely token money, but it is more than that apparently in India?—May I put this to you? You are quite right in saying the English shilling is a token shilling, and the rupee is in a sense a token, that is to say, it is what economists call over-valued. It differs from other tokens merely in being very much more widely used. It serves as a good token if it satisfies two conditions, first, that its international value be maintained—and that I think you know we provide for adequately, and second, that the person in India who uses it should not use it very unwillingly, because he much prefers another form of money. We are working up to satisfying that condition, and I think that it is to a great extent satisfied now. I do not say that it is completely satisfied, but so far as it is not that is the one defect that I should admit in our system or rather in the stage of development that our system has reached.

674 With regard to the hoarding of gold in India, there is one very curious feature that we bankers have come across, for the last two years there are certain sovereigns of a certain date that have commanded a very large premium, 1 or 2 per cent in England for transmission to India, because the Indian princes like certain dates of sovereigns, Victorian sovereigns, and they are willing to pay the 1 or 2 per cent premium in India for those. I suppose those would be hoarded, would they not?—I suppose many of them would be. The caprices of people in regard to coin is very familiar in all countries, and I think especially in India. It used to be said, and I have no doubt it is the case now, that the old sovereign which had a spade on one side, or rather a shield of the shape of a spade, was always very popular—I do not know why, perhaps it looks agricultural, but it is a familiar fact.

675 With regard to Indian gold that you might have at home in the Bank of England, I apprehend that your gold when it is put there, is earmarked for Indian purposes alone?—Yes.

676 It would not be published therefore in the gold reserves which come out?—When we earmark gold the Bank of England publish the fact in the same

way that they publish the fact that so much gold has gone to the Argentine.

677 Now with regard to the gold standard again, may I put this to you if the Indian Government makes certain sums of money by purchasing silver bullion and turning it into rupees, may it not lose much of it by purchasing the necessary gold to satisfy the holders of the rupees?—I do not see how it can lose. At what stage?

678 There again I am getting on to the rather controversial ground of convertibility. I should have thought that if you made money, in the first instance by buying bullion and selling rupees, you might, if there were a large run, turning your rupees into sovereigns again, be faced with a loss. If you make money with one hand cannot you lose it with the other?—I think I know what you mean, and I think you will agree that this is a slightly more correct way of putting what is in your mind. You make that profit obviously in rupees, it may be that when you want to convert those rupees into sterling money in some way or other people will not buy their of you at 1s 4d. In that case you will not sell them at a loss. I think you were assuming that at that stage, if one could not sell them at 1s 4d one would sell them at 1s 3d. What would actually happen would be that one would hold them in suspense, and if things went very bad at that moment, and continued bad, it might be a considerable time before you would really have your profit in the form of sterling—it would be held in suspense in useless rupees temporarily, I think that is the danger that you were really thinking of.

679 If for the moment it is undesirable for you to realise your rupees, should not all money made by the currency be kept for the currency alone? You could not surely use any of it, even for such a benevolent purpose as the helping of railways. Would you tell me if, in your opinion, it would be wise to keep, say, 20 millions of gold in India and 10 millions in London, and that everything else that you make out of the currency should go into sterling securities, not to be sold necessarily, the interest on those sterling securities going to the good of India?—I should not like that at all for a number of reasons. I should not like the 20 millions to be held in India in gold, partly because it would earn no interest—you may think that a good reason or a bad reason, but still it is my reason, such as it is, and partly because to send it out to India when its real purpose would be only to be sent back again would seem to me to be a very wasteful proceeding indeed. That is as regards your 20 millions sterling in India. As regards the 10 millions sterling in England—

680 In gold?—Yes, I think that is more than there is any occasion to keep in gold, because if one can get the right sort of securities, Treasury bills, and so on, which in time of need one would have to sell for bankers' money, and not for gold, it is on the whole more advantageous to keep a smaller sum in gold in England. As regards your further point, if you agree, as I am sure you will agree on further consideration, though perhaps not at present, that at some time you will have reached the highest reasonable limit that any one can think necessary for the accumulation of this fund, then it would be wasteful to go on accumulating the fund beyond the real necessity when you can use the money for other purposes and for purposes for which it is very urgently required.

681 As we are all I think, pretty well agreed that the first thing we must consider is the safety of exchange, does it matter whether you lose—I am speaking generally now—even so much as a million a year in interest so long as you make sure of the exchange being kept firm? You would lose a million a year, I allow, on the 20 millions on the one hand, and the 10 millions, on the other, and my commercial mind does not like that as a rule, but still, for the sake of safety, I should be willing to keep the whole in gold. What do you think of it?—I feel confident that if one handles the reserve properly, and invests such portion of it as one does invest,

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in suitable securities, the money required would be forthcoming when it is wanted. Even if I had no experience to go on, I should think that on a *priori* grounds, I think it the more strongly because I may say I personally have been through the experience of this crisis of 1907-8, the very exceptional severity of which you cannot doubt after the figures that I have put before you.

682 I think in that period which you were good enough to tell us about there was only one bad monsoon year, suppose we had three bad monsoons one after the other, where would you have been then?—I refer you again to the history of the last 40 years that is given in the various supplementary tables,\* and say that in the same way as no business man, however prudent, conducts his business on the assumption that in one year there will be a war between France and Germany, in the next year a war between America and Japan, and in the third year a war between Great Britain and some other power, so one ought not—it would be an excess of prudence, and indeed nervousness—to carry on the affairs of a Government on the assumption that this series of calamities is to be provided against.

683 I think you said that in one year of very bad trade, 1907-8, you wanted 13 millions?—More than that, I think the proper figure is round about 18 millions. That, if you please, is two years, as it extended over the autumn of one year and the greater part of the next year.

684 (Sir Robert Chalmers) The rupee is taken at 1s 4d in exchange?—Yes.

685 In that very simple way it differs from a shilling, which is only worth 12d in exchange?—Yes.

686 Except that the 12d bit is a limited tender in England, is there any essential difference between that and a 1s 4d bit, if you had such a coin?—No, except that, in practice as you know, the Government has undertaken the support of the rupee in times of difficulty, and by so doing has created an expectation that it would do so in future times of difficulty. Except for that there is no difference.

687 There are analogies with the rupee in other parts of the world where you have unlimited tender, such as the West Indies and West Africa, for instance?—Yes.

688 Would you agree that the fact of this unlimited tender would be the most distinctive difference between the rupee and the shilling?—Yes.

689 In regard to the gold standard reserve, I understood you to agree that its primary purpose was to maintain the exchange with London?—Yes.

690 The need of providing the natives of India and other persons with sovereigns was a secondary one?—Quite so.

691 The object of the gold standard reserve was to build up a protection for the parity of exchange at 1s 4d?—Yes.

692 I think you said there was a great deal of unanimity between all Secretaries of State and successive Governments of India as regards the sum, I think it is four millions sterling, that is used from the gold standard reserve, or has been used, for the purchase of silver, and is kept in a silver form in India?—Yes.

693 It may be useful to the Government of India to get it so, but it surely is wholly diverse from the purposes of the gold standard reserve to use your sovereigns to buy silver and keep your silver in India? I do not enter into the reasons, but it is so, is it not?—I do not know what importance you attach to it, but if one is to maintain the parity of the rupee and the sovereign, one has to prevent the rupee from going down, and one also has to prevent the rupee from going up. Some authorities held in 1893, when the Mints were closed, that it would be a good thing to let the rupee rise up to 1s 6d, and that, though it was an arguable proposition, was never accepted. If you have this extra stock of rupees in the gold standard reserve it is an extra safeguard against the rupee going above 1s 4d, which is a point of no inconsiderable importance.

\* See *op. cit.*, Appendix IV, page 107.

694 Would you agree that there is a certain amount of anomalous appearance in, using gold to purchase silver as a means of maintaining a gold standard?—If you say, as a means of maintaining a gold standard and imply by that preventing the rupee from going down, I should quite agree with you, but I may say that I am quite serious in mentioning that to prevent the rupee from going up beyond this 1s 4d is a matter of some importance.

695 I will pass now to the other reserve you have got, the paper currency reserve. Does the paper currency consist of notes which are issued, and which are payable in silver rupees by law?—No, that is the view which is often mentioned by critics or students of the Indian system, but it is not absolutely correct. The note is payable in legal tender money of the Government of India, and the Government of India has therefore the option of paying either in rupees or in sovereigns, whichever it pleases. It would be a very arbitrary thing for the Government of India, among a rupee using population, to insist on paying sovereigns, so that the real fact and what you stated in your question come very close together, but what you stated was not absolutely correct.

696 I am obliged to you for your answer—the position being in fact very closely analogous to that which exists in France as regards the payment of a Bank of France note?—Yes.

697 They could pay in gold or in five franc pieces at their option?—Yes.

698 How did you come to the plan of having first an English branch, a London branch, of the paper currency reserve?—It originated in some correspondence between the India Office and the Government of India, which I think you will see in papers that Mr. Newmarch is submitting (see Note III to Appendix VIII, pp 284-8). The objects aimed at—and that I imagine is all your question is intended to get from me—were two. One object was that when silver has to be bought because the rupees in the paper currency reserve are very low, it is an advantage to be able to take out gold from the portion of the paper currency reserve held in London, and buy silver with that, it is a most expeditious and convenient way of doing it. Then, secondly, there are occasions when it is desirable to use that gold for the purpose of supporting exchange.

699 By transfer?—Yes, you know the nature of the transfer, do you not?

700 Yes. There are statutes that govern the paper currency reserve, are there not?—There is a consolidated statute.

701 As regards the gold standard reserve there are no statutes?—No.

702 That is at the immediate discretion, subject to publicity, of the Government of India and the Secretary of State in Council?—Yes.

703 Have you thought at all about taking steps to give legislative sanction to the arrangements under which the gold standard reserve is dealt with?—No.

704 I want to ask your opinion now, if I may, on a question of a somewhat hypothetical character. You have got a gold standard reserve which holds silver in India?—Yes.

705 And you have got a paper currency reserve which has got gold in London?—Yes.

706 Would it be possible, in your judgment, to bring together those two things, the paper currency reserve and the gold standard reserve, under commissioners obeying statutes, very much as the Issue Department with us in England?—Yes.

707 In fact to have Commissioners dealing with the issue of notes in India and with the maintenance of the gold standard exchange?—No doubt it would be a practicable thing to do, but before any Act constituting such Commissioners could be advantageously passed, or even introduced, it would be desirable to have considerable unanimity as to what the system should be. As you realise, the work that we have done during the last 15 years in building up this system has been pioneer work, and from time to time there have been different views taken, possibly even mistakes have been made. It is much easier to legislate for a paper

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currency and to put that into the hands of Commissioners, because it is worked on very simple lines, than to legislate in that way for a gold standard reserve, the nature and application and location of which are to some extent matters of controversy.

708 Apart from controversy, you would be prepared to agree that very cogent arguments are necessary to deny the claim for the statutory organisation of the gold standard reserve at the point we have now reached?—It is partly a question of the habits of people's minds. When one is dealing with, say the Crown Colonies such as Singapore and West Africa, one's thoughts immediately turn to a statute which is to regulate the behaviour of Currency Commissioners or other similar bodies perhaps with rather different names. In India it has not been the practice to any great extent to create bodies of that kind with strict legislative definition of their functions, and to the Indian official, and to the Indian public, the absence of such a statutorily constituted body to deal with the gold standard reserve does not, as a rule, appear striking, I should say.

709 To the public might it not seem an added guarantee?—It might. It is really a question of public opinion. The Karachi Chamber of Commerce, as you know, thinks that the management of the gold standard reserve should be defined by statute, that is in the papers that have been circulated. I think it is the only body that has made such a proposal.

710 As regards the holding of gold in India, are you quite clear that as a matter of mere economics it would be wrong to hold your stock of gold, whatever may be its amount, away from the spot at which it could be required?—You say as a matter of economics—yes.

711 Would there be any other argument in your opinion on the other side, except one of what we may call a national sense?—No, absolutely no argument at all except that.

712 In your opinion?—In my opinion.

713 (Sir Ernest Cable.) A good deal has been said this morning about the silver held in India and the gold standard reserve, but I notice that in Appendix III you mention that the arrangements were perfected which would avoid hasty coinage in future. I think it was one of the objects of that reserve to avoid hasty coinage?—That was one object.

714 I understand also from Appendix III that the arrangements were effected by which any hasty coinage will be avoided, is there any longer any reason on that account, at all events, for holding silver in the gold standard reserve in India?—I do not think that that reason is now a good one for holding the Indian branch, but in Appendix III I have given a wholly different reason, which I think is a good one, that is to say, it provides in a way which otherwise might not be easy to provide, for the expansion of the currency at particular times.

715 When you coined this silver and kept it in the gold standard reserve there was some profit on the coinage, did you credit the gold standard reserve with the profit?—It is rather the other way round. When certain silver was being coined, and I think coined mainly to put into the paper currency reserve, there was a profit on it, a profit which naturally accrued, in the first instance, in the form of so many extra rupees, and these extra rupees were kept in the Indian branch of the gold standard reserve, and formed the Indian branch. You pay a certain sum which is equivalent, say, to 100 rupees in order to buy silver, and then you get silver out of which you coin, say, 130 or 160 rupees, and the odd 30, or the odd 60, is the profit.

716 And that is now credited in the reserve?—

Yes.

717 I do not think the reasons for the location of the gold standard reserve were quite brought out this morning. Do you not think, even at the cost of losing some interest, that if it did buttress public confidence, so to speak, it would be advisable to keep a large sum in cash in India?—I think that the only thing to be said in favour of that is that a certain number of people might like it and feel their national sentiment gratified. Since it would involve a very considerable expenditure

one way or another, even if it were merely the expenditure required in order to take the money out and then in times of need bring it home again, I think that I should be rather slow in meeting that sentiment unless its existence were much more clearly demonstrated than it now is.

718 In paragraph 9D of Appendix III (pp 89-90) you gave as one of the reasons for not holding the gold standard reserve in India, that the gold would not be exported but would pass into use in India for circulation and other purposes, and on this ground you hold that the gold has failed to fulfil its original object, namely, the maintenance of the par value of the rupee, but is it not the fact that by the issue of gold on the one hand, and on the other the corresponding withdrawal of the rupee, the gold value of the rupee would be raised?—That is a view which I have often heard, but with which I do not agree, assuming that you mean immediately raised. The mere fact that the number of rupees in circulation is reduced, and the number of sovereigns in circulation or available for circulation is increased, does not seem to me to affect materially the exchange value of the rupee. As I was explaining to Lord Faber, and I think he quite accepted the explanation, the exchange value of the rupee in the international sense, depends on the balance of international trade and international indebtedness and an alteration of the mere quantum of rupees in circulation does not, I think, affect it. I quite admit that if that alteration in the quantum of rupees affects prices in India and affects the amount of export trade and so on—

719 It would cause a fall in prices?—That then it does tend to steady exchange. But such a fall in prices as you suggest, would probably occur rather slowly, whereas an exchange difficulty should be set right with the least possible delay.

720 I think Lord Faber suggested certain figures to which the gold standard reserve should be raised, of course, it is impossible to fix any limit to that, and in fact I do not think he attempted to do so, and the only way to do it would be to hold frequent conferences with chambers of commerce and so to get their views as to the amount that should from time to time be held in the gold standard reserve, what would you say to that?—I am always in favour—and I may say that I have been in every branch of my work at the India Office—of frequent consultation orally as well as by letter with the qualified representatives of the commercial community. If from time to time there were a discussion between the India Office and the leading members of the commercial community at Calcutta or Bombay, I think it would be to the advantage of all parties concerned—it would help to solve that particular question that you mentioned, and would probably remove misunderstandings.

721 Sir Robert Chalmers asked you about the amalgamation of the two reserves, I think he dealt with the question more from the point of view of administration, but I should like to ask whether there would not be a practical advantage from the business point of view in amalgamating the two reserves?—I think in some ways it would be a convenient thing to amalgamate them, but there are some considerations on the other side. You know, no one better, how very sensitive and conservative Indian public opinion is in these matters. To mix up a paper currency reserve which serves one purpose, and a gold standard reserve which serves another purpose, might shake Indian public opinion. Then there is also a practical danger in the way of amalgamation, which perhaps you have thought of, but I might mention it. As I was saying before, the paper currency gold is meant to flow out in good times and the gold standard reserve gold or securities to be held as a reserve until bad times come. If you amalgamate those two reserves, which have gold that has to be used for quite different purposes, you may fail to notice the difference of the two purposes, and you may treat the whole of them as though held for the same object. I do not say that that is an insuperable difficulty, but at any rate it is a danger which has to be borne in mind.

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722 Do you consider that the increase in the quantity of gold in circulation in India would provide a reserve against a falling exchange, and therefore it might be desirable to encourage the circulation of gold?—There is a certain advantage in it I myself rather hold the view which has been put forward by many eminent writers that what you may call the waistcoat pocket money of the population is not of much use for steadying foreign exchanges, and that if one is in the habit of carrying 5l in one's purse one goes on carrying 5l in one's purse whatever the international situation, and that sort of money does not come out at a time of crisis or of a falling foreign exchange. But, of course, that is a doctrine that has to be pushed only up to a certain limit, occasionally that circulating money is of some use.

723 (*Sir Robert Chalmers*) That was the view taken by Lord Goschen when he was Chancellor of the Exchequer, was it not, nearly 25 years ago, at Leeds?—Yes. It is one of the few doctrines under discussion now on which one has an expression of opinion from one whom I may call my late colleague Mr John Stuart Mill. He was very strong on the comparative ineffectiveness for steadying foreign exchanges of the gold that is in actual circulation, the passage\* has often been quoted.

724 (*Sir Ernest Cable*) It has been stated by some people that gold is becoming scarcer and that the Indian absorption of gold is regarded with alarm in some quarters, is it not the fact that the production of gold during the last 10 years has increased at a faster rate than the trade of the world?—I cannot say that it has increased faster than the trade of the world, but I know that the increase in gold production has been very great indeed. The fact of prices going up is probably an indication that gold production has increased faster than trade.

725 You have stated in your memorandum that if you were asked to give evidence as to how the silver purchases were regulated you would explain the improved system. Will you kindly give us that information?—In answer to the Chairman I referred to the memorandum of 1910, and I really think that all that is of considerable importance is to be found in that memorandum (*see Enclosure to Despatch to the Government of India, No 25, of 18th February 1910, Appendix V pp 188-94*). Of course, you have to read it with the letter from the Government of India, in which, subject to some slight reservations, they accepted the principles of the memorandum (*See No 48, dated 29th February 1912, page 195*).

726 To take you back for one moment to your evidence of the other day, you stated that the Mahratta Railway loan was not going well, do you not think that a 4 per cent. Government railway bond with the interest secured on the Government railway revenue, and paid within a fixed period, would be a most popular security and would procure for the Government all the funds they need for railways?—If one were considering merely one year's operations, I have no doubt that an issue of terminable bonds would be very proper, but, as I think I have mentioned, or as I intended to mention if it were put to me, if you have an illimitable series of years in each of which you have to borrow money, and then you create a series of terminable obligations, when the time comes at which the first batch mature you are apt to find yourself in great difficulties. I merely put that as indicating that what you propose can only be applied successfully if applied with very great moderation, and probably you yourself would agree to that qualification.

727 (*Mr Keynes*) There are one or two points of detail that I would like to have a word or two about first. About the term short dated securities, would you include any security with less than five or six years to run?—Yes, but, of course, if all one's securities had so long to run as that I should not regard the whole of them as a good assortment of short dated securities.

\* Principles of Political Economy, Book III, Chapter XXII, § 3 and nn (p 187 of Vol II of *Macmillan's Edition of 1878*).

728 I think the Chairman asked the question whether they were always realisable, would you hold that for instance New South Wales stock maturing in 1918 is as easily realisable as Consols which have no date of redemption?—It depends on the quantities. Supposing you wanted to realise many millions, you might find a difficulty, but within a moderate limit of amount I should think that it would be very realisable assuming, of course, that the repayment is obligatory and not at the option of the borrowing Government.

729 Would you not say that the buying of short dated securities is an insurance against the depreciation which is due to a long period change in the rate of interest—but that is not the same thing quite, as easy realisation. Would you not say that the advantage of New South Wales stock repayable at par in 1918 over Consols is that you have insured against the rate of interest falling in the intervening period?—Yes.

730 But that is not the same thing as having something which you are quite sure is marketable at a given moment?—Quite so. There are two quite different considerations. It is quite possible to secure oneself against depreciation without attaining easy realisability. An extreme instance would be if one lent money on mortgage on private estate. That might be very unrealisable, although you had the security against depreciation. I quite recognise the difference. Our main object in seeking short-dated securities has been to attain realisability. It has not been so much though the two are connected to some extent, to avoid depreciation. Whether we in every single investment have been absolutely wise is another question.

731 In the last five years your policy has shown a great reaction against the purchase of Consols?—Yes.

732 Would you argue then that you have done that because you think Consols are less realisable than they used to be and not because Consols have become unpopular through having fallen in value steadily?—I am not sure that you put the distinction quite as I understood it. The advantage of short dated securities is, first, that you can realise them readily, and secondly, that you can realise them without loss. In one case it is speediness of realisability, in the second case the freedom against loss. The speediness of realisability is what I think has weighed more with the India Office, that is certainly what has weighed more with me personally.

733 And you think on that score there has been good reason for reacting against Consols?—I think so. Of course I am influenced very much by what I hear from financiers of my acquaintance, bankers and so on. In 1908, when we had to do a great deal of realising, as you will see from the figures, we did not find any considerable difficulty, but in subsequent years we have been impressed by the fear that we might possibly find difficulty.

734 I wanted to get the point clear as to whether you had reacted against Consols, because of their long fall in value or because you thought they were less realisable than they used to be, that second reason is the one which has weighed most?—Yes.

735 (*Chairman*) You distinguish two advantages in short-dated securities?—Yes.

736 One is that they are more immediately realisable, and the other is that they are immediately realisable without loss?—Yes.

737 Is there anything you could hold which you can with more certainty realise immediately than Consols? You observe that on this occasion, I do not say without loss, but is there any security you could have which is more marketable than Consols?—No doubt that is the most marketable of all the permanent securities. I should say that Treasury bills at a time of difficulty are much more marketable than Consols.

738 If you wanted to realise 10 millions to day would it be easier to realise 10 millions in Consols supposing you had them, and subject to a possible slight loss, or 10 millions in short-dated securities?—I should say—but of course I speak with some diffidence—that it would be easier on a day like this, which as you know is not a very happy day financially.—

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739 That is why I choose it—?—I should say that it would be easier to realise, if one went to the right people, bankers and so on, 10 millions of short-dated securities of the same standing. Of course I am not comparing Colonial Government securities with Imperial Government Consols, but comparing the Treasury's Treasury bills with the Treasury's Consols.

740 At the moment there are not many Treasury bills out?—The number has decreased.

741 If you wanted to realise a large quantity of short-dated securities you would have to sacrifice your interest at least, would you not?—Yes, you may have to sacrifice the interest that has accrued.

742 And you might have to sacrifice possibly something more?—Yes.

743 So there is that to be set against any loss in price which you would incur if you sold Consols?—Supposing one had to sell 10 millions of Consols to day I should expect that the loss would largely consist in a sort of insurance by the purchaser against the risk of a further fall. He would buy hoping naturally that they would go up hereafter, but with the knowledge that they might conceivably go down, and probably in the price of so large an amount he would cover himself very liberally against the risk of the Consols going down.

744 If you were selling Consols you would be dealing in a larger market than if you were selling short-dated securities?—That is quite true, and when you are dealing with hundreds of millions that would be a point in favour of Consols for us, but when you are dealing in such a sum as 25 millions, then I think the money market as distinct from the investment market, is big enough to enable us to do what we want to do.

745 (*Sir James Begbie*) On the question of the sale of securities has the experience not been that you have had to sell comparatively small amounts in one week, in 1908, for example you never had to sell more than a million at a time, had you?—I think that the biggest individual transaction that we arranged was when we sold two millions to the National Debt Commissioners, that is my recollection. But I quite agree with you that if you were selling week by week a million a week would probably be as much as one would like to sell.

746 (*Mr Keynes*) I may assume, therefore, that the reason why you have the miscellaneous selection that I see in this list, of three kinds of New Zealand debentures, two of Queensland, three of New South Wales and so on, is because you think they are more easily realisable than Consols or at any rate mainly for that reason?—Yes, but of course you have to have regard to the comparatively small amounts of them.

747 In the course of your evidence in answer to the Chairman, you drew our attention to the exceptional severity of the crisis in 1907, and as a part proof of that you handed in Statement 3, Appendix IV (page 108), showing how very much more the trade balance dropped in that year than in any previous year of famine. I notice that in that table the chief explanation of that is to be found in the high level of imports, would you agree to that?—It is a common experience that when our exchange gets into difficulties and when one looks for an explanation to a reduction of exports, which is where one would look for an explanation, one finds it very incompletely there, but one finds, as a rule, a surprising increase in imports. You ask me whether I agree to it in that one particular case, and of course I do because the figures speak for themselves. I was going merely to draw your attention to the fact that in other periods of notoriously difficult exchange the same thing is to be noticed.

748 In this actual year, 1907-8 the imports were at a considerably higher figure than in any of the preceding years, or than in the two years following. I suppose the explanation of that would be that it followed on exceptionally prosperous years, and that they were really purchases that had been entered into previous to the famine?—No doubt, and that no doubt would apply to the imports of merchandise, and to some extent also to the imports of silver which follow the same course.

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749 Would you hold that that was a very exceptional circumstance? On a future occasion might it not happen that the crisis, when it came, would come immediately after two very good years?—It might, there is no special reason why it should, but if it did no doubt there would be still, as you say, imports coming in as the objects on which cultivators were spending their extra earnings, and that would tend to aggravate the exchange difficulty. I quite agree with the general line of your remarks.

750 Would you agree to this further development of the idea, that in 1907-8 the Indian public had got more into the habit of buying foreign goods than they were on the occasion of the previous famine, and that that tendency continues?—No doubt.

751 Therefore, this buying of foreign imports in advance is likely to be a factor more important in the future than it has been in the past, in the 90's that is to say, from which you argued?—Yes. That, I think, is a good ground for criticising and modifying the inferences to be drawn from the figures of the 20 years that I have given. I have nothing to say in opposition to that line of criticism.

752 Further, in using the experience of 1907-8 I suppose you would agree that allowance ought to be made for the increased scale of the whole foreign trade since that time?—Yes, certainly.

753 That if the imports and exports have increased 20 per cent, or whatever it is, you ought to add on to your experience of 1907-8 a corresponding percentage?—You ought to add on something.

754 Would you agree that in 1907-8 the complete absence of any banking trouble in India rather altered things?—Do you mean that the exchange difficulty would have been greater if Indian banks had begun to go wrong?

755 Yes?—I am not at all sure. I have often thought about it, it depends what kind of bank one has in mind. I daresay you have noticed that if the exchange banks got into difficulties and their customers in India drew out the very large deposits that are due by the exchange banks to their customers, the exchange banks would, somehow or other, have to send out money to India in order to satisfy their customers, and that in a very calamitous way would tend to set the exchange position right from the Secretary of State's point of view. I think you follow what I mean, and that I need not expand it in detail.

756 I only wish to get your opinion on the matter. I should like now to ask a series of questions directed towards the relation between the gold standard reserve and the other reserves. I take it that the stability of the rupee is supported not only by the gold standard reserve, but also by the gold of the paper currency reserve, and any other sterling resources which the Government happens to have?—Yes, certainly.

757 The gold standard reserve is built up from the fruits of the economy of using token silver coins?—That is so.

758 And the presence of the gold of the paper currency reserve is due to the fruits of the economic using of the paper currency?—Yes.

759 Then the two reserves are distinguished in origin?—Is that quite right? When we are wise enough to coin a 10d. rupee and put it into circulation at 16d., that is wise economy, and the profit, as you truly say, goes into the gold standard reserve, and your description is quite right. But when a man brings you two sovereigns and you issue 10-rupee notes to him instead of issuing to him in exchange 30 individual rupees, I am not sure whether there is any close analogy between the building up of the profit and the economy, is there?

760 I should say that the analogy was almost perfect, but perhaps we are at cross purposes?—One is an obvious economy, and I quite agree with the way you describe it. The other seems to me to be merely an exchange between a full-value sovereign and 15 rupees, in which the results of economy are embodied. I do not wish to interrupt the questions, because if I do not follow what you said on this particular point, I do not suggest that there is any serious difference between us.

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[Continued.]

761. The only point I wish to make is that the two reserves are distinguished in origin?—That is so.

762. How do you distinguish their uses—I am speaking now of the gold branch of the paper currency reserve and the gold branch of the gold standard reserve?—Are you asking me to repeat what I mentioned in answer to the Chairman and Sir Ernest Cable, that the gold of the paper currency reserve, so far as it is held in India—

763. I was thinking of the chest in London?—To all intents and purposes there is no difference between the use, except so far as you may say that the gold in the paper currency reserve in London could be used to pay for silver, but that one may put aside. You are asking, no doubt, with reference to the use of that particular gold to support exchange, in that respect there is no difference.

764. In paragraph 7 of Appendix III (pp 88-9) you suggest that 5 millions sterling is a suitable amount to hold in gold in the gold standard reserve, is this amount contingent on the amount earmarked in the Paper Currency Chest?—When I wrote that I was assuming that there would be gold held in the paper currency in London.

765. Were you making any assumption as to how much?—No. We have for some years held sums varying between 5 millions and 7 millions, occasionally they have gone up a little, I had in my mind about 5 millions.

766. Your view then is that you ought to hold about 5 millions in the gold standard reserve if you are holding from 5 to 7 millions in the paper currency?—I would not crystallise it too much. Supposing that at a particular time one had very little in the paper currency, I do not think that I should hold that one ought to increase the amount in the gold standard reserve, but still I should not seriously dissent from what you said.

767. My point was how much gold you want to have in London altogether to whatever reserve it is credited, and I wanted to get at your notion as to what the proper figure for the total gold in London was, it does not seem to me that the particular way of crediting it is of such fundamental importance?—It is very indeterminate. One wants to have, I think, at least 5 millions, preferably more, which you can use almost at a moment's notice, which at any rate you have so much under your control that at the beginning of an exchange crisis you can offer to sell, say a million of bills, of the kind that was sold in 1908, per week for several weeks, and feel that you are provided with the means to meet them.

768. You will want to hold some gold, and I was wondering whether you had settled at all in your own mind what the amount should be in present circumstances?—No. I do not think that one can give anything more than one's own estimate of how much would make one feel quite comfortable with this responsibility of meeting an exchange crisis on one. I should say that if one were as low as 5 millions, one would not feel that one was ill provided for, that if one had 10 millions one would feel that that was rather better but not a wasteful amount, and that if one had more than 10 millions I should feel at any rate that it was rather wasteful. I do not think I could put it more definitely than that.

769. Are you of opinion that the amount in the gold standard reserve, which ought to be lent at short notice in London, is in any way contingent on the amount that is lent in this way from the general balances?—Only in this way, that if we were lending from our general balances as much as our approved borrowers would take it would be difficult to lend from the gold standard reserve as well, and certainly one ought not to be lending so much that approved borrowers of less than the very highest standing were accepted in order to find a clientele.

770. You would argue in this way that as long as it was your normal practice to have 5 millions or 6 millions lent at short notice from the general balances, then that 1 million lent in that way was enough from the gold standard reserve, and if your normal practice changed so that you only lent, perhaps, 2 millions from the

general balances, then you ought to have more in the gold standard reserve lent in that form?—That, if I may, put it in an almost primitive way, is not quite the way my mind works in these matters. I think what is behind your question is this, that the smaller your general balances at any given moment the larger your special reserves ought to be, if you are to be well equipped for meeting a sudden fall in exchange.

771. Particularly, that the smaller your general balances, the larger your special reserves ought to be, in the most liquid shape?—I think that the reason that I am not able to answer you quite as directly as I should like is, that in preparing for an exchange crisis, or in considering how one will prepare for it, one has in mind that one will rely on certain special reserves, and one leaves the general balances out of consideration, thinking they will just be enough to pay the ordinary current expenses, and that they will be of no help for the exchange crisis. I repeat that if at a time when our balances had risen as they have recently to a very unusual height, 18 or 19 millions, an exchange crisis had then come, those high balances would have been very helpful to us.

772. I can understand your taking the view that the general total of the reserves ought not to be influenced by your temporary balances, but would you also hold that the form in which you ought to keep your permanent reserves is uninfluenced by the amount of temporary balances that you have?—Yes, because according to my view, and if I may so put it, our system rather stands or falls with its correctness, the various reserves that one holds can be realised when we want them. It is true that we cannot realise 4 millions of Consols advantageously in a week, but we have built up a system so that, if we saw the need for realising all our reserves, by the time we wanted our 4 millions of Consols we could have realised them, and our gold and our short-dated securities and so on would last us during the period required for the realisation of the Consols. I hope I have made it clear that that is why I do not attach, if you do not mind my putting it in that way, very much importance to the consideration that you were last mentioning.

773. You would not feel at all that as long as it is the policy to hold 5 millions or more in the general balances at short notice, there is no need of holding a million as well in the gold standard reserve at very short notice?—No, because I feel that the general balance is hypothecated for quite different purposes. Also, just let me mention this to remove a possible misapprehension as regards fact one speaks about our 5 millions or 6 millions as a standard for the general balance, that is to say, for the closing general balance on 31st March in each year, but that is a very fluctuating sum. As I mentioned previously, in the course of a few days we might be paying away 3 millions or 4 millions, and those occasions when we have very heavy payments recur at least four times a year, when the quarterly dividends have to be paid.

774. You have suggested 25 millions as the proper limit of the gold standard reserve (see paragraph 19 of Appendix III, page 83), is the suitability of this particular sum in any way contingent upon the amount of sterling resources held otherwise?—I had in my mind that we should probably have 5 millions of gold in the paper currency reserve in England. That was the only special resource that I assumed. I assumed that our general balance would not be exceptionally high or exceptionally low, because it would serve the primary purposes that it is meant to serve.

775. Your view is then that about 30 millions is the proper limit for all your sterling resources which are connected with the support of exchange?—Yes. I should call that a liberal limit.

776. In calculating the proper amount of the gold standard reserve, are you considering merely the obligation under which the Government of India lies to support exchange and to be prepared to change into sterling all rupees and notes presented, or are you considering other possibilities as well?—Would you indicate the other possibilities that you have in mind?

777. Are you considering the possibility that the Government of India would have to assist the Indian



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money market at a time of severe crisis, or merely that they should change into sterling such notes and rupees as the Indian money market should tender to them?—I have always assumed that if in a time of severe crisis the Government of India had to assist the Indian money market, it would assist it in India, and that the need for granting such assistance would not make any demand on the sterling resources which we have been considering.

778 If the Indian money market were helped in India that would increase the amount of funds available in the hands of Indian bankers for tendering for sterling bills, would it not?—May I answer you in this way, that you are regarding, if I understand you rightly, the amount of the drain that may come on our sterling resources as a certain function of the currency which Indian bankers and the Indian public could tender for the purchase of bills on London; but I regard it as a function not of a certain quantum of currency but of a certain balance of foreign trade, and all my arguments and calculations are based on that.

779 I am glad that point has been brought out. I myself should not say that it depended necessarily upon either of those, but it depends upon one or other of them according to the policy adopted, therefore I ask you which policy is adopted? Let me put it in this way if the existing volume of the currency is the test then it seems to me that implies a policy of only giving sterling for rupees and notes; if the balance of trade is taken as the test then some other standard is applied. Would you agree with that?—I have always taken the balance of trade as the proper measure of the possible liabilities that would have to be met in a period of exchange crisis, and I have disregarded the quantum of currency altogether.

780 With reference to a question which Sir Ernest Cable asked, do you think that when a certain point is reached in the accumulation of the gold standard reserve it is the profits on the further rupee coinage which ought to be diverted, or rather the interest on the former accumulations that should be diverted?—I do not think it matters very much, but I do not see how anyone could answer that with any definiteness. My feeling, as was brought out, I think, by the Chairman and other questioners, is that if you have worked up to a certain sum as being a suitable reserve at a given time you must let it go on increasing by moderate increments year by year, or decade by decade, so as to provide for the natural growth of trade, and whether it is better to let it grow by the accretion of interest or by the accretion of profits is a question to which I could scarcely give any useful answer.

781 I put a more precise question than that. When you say after 25 millions has been reached further sums should not be credited to the gold standard reserve, do you mean that the interest of those 25 millions should not be credited, or that when further rupees are coined the profit on those rupees should not be credited?—I think I fully understood your question, and I am sorry if I did not make my answer clear. My answer was intended to be this: you must go on, or it is desirable to go on increasing your fund year by year, whether you increase it by adding the interest and diverting the profits or whether you increase it by adding the profits and diverting the interest is a matter on which I do not feel that I, or indeed anyone else, could give an opinion of any great value.

782 I had not understood that the 25 millions you suggested was a figure which is only valid, as it were, for the moment?—In this as in many other things one is always in a state of flux. If 25 millions is valid now, then 25½ millions will be valid next year, and 25¼ millions the year after—I am taking, perhaps, rather large increases. As the business of India increases so ought your reserve to increase by an amount or in a ratio which it would be affectation to pretend to define with any exactness.

783 I understood you to say that when the gold standard reserve had reached 25 millions no more ought to be accumulated. I understand now that what you are saying is that if the gold standard

reserve were 25 millions now then no further accumulations ought to be made, is that right?—What I meant to say was this. Until we have 25 millions let us have the full profit and the full interest, when we have reached 25 millions then do not let us say the fund has reached its maximum, but let us provide for accretions on a smaller scale than hitherto, let us either add the interest but not the profit, or the profit but not the interest, or some proportion of the profit. I wish to be rather indefinite. I only wish to put forward the view that some accretion, but not so much as now, should take place when the 25 millions is reached.

784 I wish only to elicit the precise nature of the indefiniteness, if I may put it in that way. Turning to the Indian branch of the gold standard reserve, is it not rather confusing to the public that the gold standard reserve should hold silver?—Yes, I think it is, more especially because the true explanation, or at least my view of the true explanation, has never been put before the public. What has been put before the public is rather the view that this Indian branch is a bulwark against hasty coinage, which does not very much commend itself to my mind. I think that what I regard as the true view is quite comprehensible, but I should agree that though comprehensible it is perhaps not easily comprehensible.

785 Would you mind explaining what the reasons are against the lock-keeping transaction by which 4 millions of gold would be transferred from the paper currency reserve to the gold standard reserve, and 4 millions of silver transferred from the gold standard reserve to the paper currency reserve, why should that not be done?—The difficulty is simply this: We may assume that the rest of the Paper Currency Act is going to stand as it is, because what I am going to say depends upon that assumption. If you wish at any moment to take out your 4 millions of rupees from the paper currency reserve you have to do one of two things, as I put it in answer to the Chairman, you have to apply one of two keys to the lock—you either cancel notes or you earmark gold. There are times when you would like to get at the rupees, but it is inconvenient to use either of these methods, and then, instead of these rupees being left in the paper currency reserve and in the gold standard reserve, you have a third and much easier method of getting at them, namely, you can either take a loan, which I do not think a good scheme, or you can make an investment in securities in England as against the rupees that you have taken out from the Indian branch.

786 That is to say, more latitude is allowed as to the manner in which the resources of the gold standard reserve can be held?—Yes.

787 So that if you have to make a sudden change, there are more ways in which you can do it?—That is so.

788 But apart from that there would be no advantage in holding any silver in the gold standard reserve, would there?—No, that to my mind is the only advantage.

789 Therefore, if the latitude which is allowed with regard to the gold standard reserve were allowed in the case of the paper currency reserve, you would then clear out the silver from the gold standard reserve altogether?—I am not sure that the Government of India would agree, but I am giving my opinion. My answer is yes, but I do not wish to commit anyone but myself to that answer.

790 So that the explanation of a practice which is rather confusing to the public is that it is simply a detail of the machinery?—Yes.

791 And has no real fundamental significance?—I do not think so. Of course, the general public who are accustomed to the Bank of England method of keeping a note reserve, which seems to me as unscientific a method as could be devised, would regard it as a very serious departure from orthodoxy that the greater latitude should be allowed in respect of the management of the Indian paper currency reserve. I do not think that there is anything in that view, but still it is widely held, or it would be widely held, if any change were proposed.

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792 In paragraph 4 of Appendix III, page 88, you mention that 1s 3 $\frac{1}{2}$ d was the price at which sterling bills on London were sold in Calcutta, why was this particular price adopted?—We were told at the time that if bills were offered at that price bankers would take them in preference to taking gold, as it was just a shade more favourable to them than taking sovereigns. Whether that was a good reason or not I do not know. As one goes over it one sees that it is not particularly conclusive, but one wants to have the price that is nearest to the effective gold exporting price, and I think that 1s 3 $\frac{1}{2}$ d does answer to that.

793 I do not want to press you about this next question, but it is very important for Indian business men and bankers to know beforehand the maximum fluctuation of exchange, would they, in your opinion, be justified in assuming that that would be the price at which sterling bills would be sold on a future occasion?—Without being indiscreet one may say that when a Government has once conducted an operation of this kind on so great a scale, it is exceedingly difficult for it not to do it again when a similar occasion arises. The presumption is, I suppose, that it would do it in the same way as near as may be.

794 Would you agree that to sell bills in Calcutta at that rate, namely, 1s 3 $\frac{1}{2}$ d, corresponds to a state of exchange similar to that in which bills on Calcutta would sell in London at 1s 3 $\frac{1}{2}$ d or thereabouts?—Whether the difference is so much as the sixteenth which you assume I do not know, but there would be a difference in that direction, though I cannot say whether it is of that magnitude.

795 So, if that policy is pursued, the maximum fluctuation in the price of bills in London on India would be between 1s 3 $\frac{1}{2}$ d and 1s 4 $\frac{1}{2}$ d?—Yes, taking your figures as correct. It may be subject to some slight correction.

796 Would it be dangerous from the point of view of the reserves to make that maximum range of fluctuation rather smaller?—No. I think from the point of view of the reserves there will be no great danger in slightly reducing it. Of course, one does want to have a maximum and a minimum. That is better than having a fixed rate.

797 Certainly, and I am asking about the amount of the range of fluctuation, assuming there must be some fluctuation?—As regards the amount, I do not think that there will be much danger. I am not very captivated by the idea of reducing what is not a very serious difference, because these maxima and minima only become operative in emergencies, it is not as though they governed the ordinary rise and fall in exchange in ordinary times. I should not like to express an opinion in favour of the reduction without thinking over it further.

798 But you are rather inclined to think that the present range of fluctuation errs on the side of excess rather than the other way, are you not?—I do not think that it is far away from the right amount, but if it does err I should say it does err a little on the side of excess. I would go that distance with you.

799 In answer to a question put to you earlier to-day as to whether the Government of India had an interest in economising gold, you replied, I think, that they had no interest when their central reserve was adequate, or something to that effect—they had an interest as long as they were building up a reserve, but not afterwards?—Yes.

800 Is not the diversion of the gold standard reserve and of the rupee securities of the paper currency reserve to railways a consequence of economising gold, and also a general advantage?—I think the answer to that is in the affirmative, but for the moment I am puzzled to see the connection between it and my former answer. May I put it in my own words to see if I have your meaning correctly? It would be advantageous to the Government of India when they had their full reserves built up to the proper amount to encourage the use of rupees, because in that way money would become available for railways which would not become available if gold were used instead of rupees.

801 That is my point?—The answer is clearly in the affirmative. I am sorry to have taken up your time by repeating it, but for the moment it was not quite clear to me.

802 Therefore the Government of India still has an interest in economising gold even after their reserves have been built up?—Yes, but it is not a point on which I should be very much inclined to insist, and may I explain to you why? So far as this is to be effective it implies that the Government of India would rather persuade a man who wants a sovereign to take 15 rupees, because out of that exchange there would be something that would be available to be spent on railways, namely, the profit on the 15 rupees. That is all sound and good, and I cannot deny it, but it does rather run counter to my old-fashioned notion that the first business of a Government when dealing with currency is as far as possible, without conflict with higher interests, to give the currency that the population requires. Of course you may say that to give a sovereign instead of 15 rupees does involve a conflict with higher interests.

803 (Sir Shapurji Broacha) I think the Secretary of State, with the concurrence of the Government of India, appointed a committee in 1898, which is now known as the Fowler Committee?—Yes.

804 Their conclusions and recommendations were accepted in their entirety?—Yes.

805 By both?—Yes.

806 The Secretary of State has said about the conclusions of that committee, "His Majesty's Government have given to this report the careful consideration which its great importance deserves. They are impressed by the array of arguments and facts embodied in it, and they have come to the conclusion that it is advisable to accept generally and to act upon the principles which it recognises." Has not that the force of a law or statute to be followed for the future guidance of the Government of India and the Secretary of State?—It has very great authority, but from time to time points which were not before the Fowler Committee come up, and the committee's recommendations must therefore be supplemented, and occasionally the need might arise for modifying them.

807 I do not think the Secretary of State or the Government of India had made up their minds about maintaining the exchange at 1s 4d before the report of this committee, they had no previous basis to go upon, and according to my idea they had stumbled and erred before?—I am sorry to say I do not quite agree with you. Before the Fowler Committee there was a committee consisting of many very eminent men, the Herschell Committee, which really laid the foundation of our currency system.

808 How long are the conclusions of such a strong committee to last for the guidance of the Secretary of State and the Government of India? Are they to be broken in every respect before the ink is dry?—Certainly not. I hope that committee was not so treated.

809 That report was presented to the Secretary of State on the 7th July 1898, and before a year had expired large and absolutely new things were brought out, for instance, the putting of the rupee paper and gold of the currency reserve into sterling securities, and all this was done without taking advantage of the guidance, for even a few years, of the recommendations of the committee?—I think you are referring to Sir Edward Law's proposals of 1900, are you not?

810 Yes (see paragraph 23 of Enclosure I to Government of India's letter, No 302, of 6th September 1900, Appendix V, page 119), much of that was acted upon, though Lord Curzon was afraid that order was very large and he could not follow it?—May I explain to you that when profits on coinage accrued and they had to be dealt with in some way, it was necessary for the Government of India to propose some scheme for dealing with them?

811 Can we anticipate that the fate of this Commission will be the same before the year is out?—No. Just let me put this to you, because I am really anxious that you should not misunderstand the facts. Supposing

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that this Commission recommended in general terms a State bank—I have no idea whether it will do so or not, but it is conceivable that it should do so—and laid down certain principles, then we should set to work and try to carry out those proposals comprehensively, and it is absolutely certain that half-a-dozen questions, or even 50 questions, would arise which had to be settled, for the settlement of which it would be useless to look to, say, the three paragraphs that this Commission in its report had devoted to the subject

812 I think the strongest recommendation of the Fowler Committee is to be found in paragraph 60 of their report,\* to the effect that the profit on the silver coinage should be kept in gold—?—May I interrupt you and say that according to my view, which I have tried to justify in detail, that did not mean metallic gold?

813 I think it meant solid gold. You sell the silver in the rupee for 42d and you buy that silver for 28d, so you put 14d of profit on the silver into the gold reserve?—Yes

814 Since 1902 the currency consists of one third in gold and as to two-thirds in the intrinsic value of the rupee?—Yes.

815 Are you not breaking the currency statute by using that gold for other purposes? If you put it into securities without passing a law enabling you to do that, do you not violate the currency law?—No. You ought to remember that it was never proposed that this one third of the value of the new coinage should go into circulation as currency, it was proposed that it should be held outside the currency as a reserve

816 As Lord Faber says, the rupee is not protected by the intrinsic value of the silver, it is preserved in its actual entire value by that one third gold and two-thirds silver. Was it not, therefore, a violation to use that gold for other purposes than for the currency reserve before a year expired after the report of the Fowler Committee?—When you say it was so used before a year expired, are you referring to the investments?

817 Yes, you cannot make currency investments without putting it into a law. Have you passed a law to that effect?—This is a question, I understand, of the procedure that ought to be gone through before effect is given by a specific scheme to any of the recommendations of the Fowler Committee. If you were arguing or suggesting that statutory provision is required in each case I have not very much to say against it. I think on the whole it has worked very well under the practice of leaving the executive discretion to the Secretary of State and to the Government of India, but I can see a good deal to be said for the view that statutory regulation is better. I do strongly demur to the statement that there was any departure from the recommendations of the Fowler Committee

818 There was a substantial departure within a year. Is the opinion of public bodies in India worth anything to the Secretary of State or to the Government of India?—Yes. You must realise that the Secretary of State attaches very great importance to the opinion of public bodies, and you will not forget this, that for many years after this action had been taken and was very well known the public bodies in India were very happy, and they uttered no word of remonstrance

819 Do you remember that between the closing of the Mint in 1893 and the appointment of the Fowler Committee in 1898, the Government of India were under great aggravations to put the exchange at 1s 4d?—Yes

820 The measures they took, to my mind, militated against exchanges at 1s 4d, it was not the wit of the Government of India nor of the Secretary of State that established the parity at 1s 4d, but it was established by a series of circumstances over which they had no control, and they found themselves astonished that it was established without anybody else's interference. Can you tell me what experience or reason the Secretary of State and the Government of India had to depart within a year from the recom-

mendations of the Fowler Committee?—My answer to that is that for the reasons\* which I gave to the Chairman I do not admit that there was any departure

821 Within a year you commenced changing and chopping and putting it into securities?—No. I maintain—whether rightly or wrongly the Commission must judge—that the overwhelming balance of evidence is that what was done in this matter was in accordance with the recommendations of the Fowler Committee

822 You had no experience of gold coming in to such an extent as to bring the parity of exchange to 1s 4d until 1900 and 1901, and so soon as you got gold, instead of following the recommendations of the Fowler Committee for two, three, or four years, just to judge what steps you should take, you took the gold as in Alnaschar's dream, and went about putting it anywhere you liked without thinking of any future failure of flow coming along as it did in 1907-8?—Might I just interrupt to say that when the trouble came in 1907-8 the resources that we had put aside with the interest that had accrued, which was very considerable, were available to meet the trouble

823 I think the first man to suggest it was Sir Edward Law, at least from your correspondence it appears like that. I suppose you do not know, but I know for certain, because I had it from him, that he recanted very much and went to the India Office and said he was sorry for having recommended that course and hoped that the India Office would see the utility of changing then course, otherwise there might be disaster. Have you any knowledge of that change of view on Sir Edward Law's part?—No. It is a difficult question because Sir Edward Law made a certain recommendation which was not accepted by the Secretary of State, and the Secretary of State introduced a different scheme. If there was a change of view presumably it would be that Sir Edward Law finally came to see that the Secretary of State's amendment was an improvement on the original proposition

824 Lord Curzon, you will remember, did not agree to Sir Edward Law's amendment, for he says in his Minute of 8th July 1900, "I hazard these doubts not because I presume to set up my financial authority against that of the hon member, but for two reasons, firstly, I am not convinced that they are necessary for the success of his own scheme, secondly, I have a natural suspicion of anything that may tend, in the present early stage of our currency policy, to cause alarm" (paragraph 4 (5) to Enclosure II of Government of India's letter, No 302, of 6th September 1900, Appendix V, page 123) ?—May I interrupt you there for a moment? These remarks of Lord Curzon's relate to two proposals by Sir Edward Law which were never carried into effect—proposals regarding the paper currency reserve

825 Then may I ask you to look at the despatch of the Secretary of State in Appendix V (page 154), No 62, dated 28th April 1907, in which he says, "Before dealing in detail with your objections to the course actually pursued, I wish to remind you of the circumstances in which it was decided to adopt it in December last. The London money market was at that time suffering from severe stringency, and it was a matter of direct and immediate importance to India that this should not be increased, since guaranteed debenture bonds amounting to 1,735,100l. were to fall due between 31st December 1906 and 18th February 1907, of which it was very desirable that 1,374,600l should be renewed. Were you not making a mistake when you said that you were able to realise your securities in 1908? The greatest stringency was in December 1906. Supposing that a crisis had come on, what would have been the fate of these securities, would the Secretary of State have dared to sell eight millions securities at that time?—Just let me remind you that the end of 1907 and early in 1908—

826 I am talking of 1906-7 ?—I know, but I want to bring this in connection with it. When the sale of securities actually took place, a much worse financial crisis had occurred than is mentioned in the passage which you have just quoted. You must have regard to the relative proportion of

\* C. 9341, page 18

\* *Qu. 559 supra.*

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[Continued

things. In this despatch which you are referring to, the Secretary of State says, "Between the two methods of liberating certain money in India, neither of which was open to any very great objection, I chose a particular method because it was less liable to cause a difficulty in the renewal of certain debentures." You must not build on that foundation the statement that if we had wished to sell securities for a very serious emergency at that time we could not have done it. We were merely exercising in this passage a little common sense, I take it.

827 Are not political considerations and market considerations taken into account when these large transactions are entered into by the Government?—Yes

828 The Secretary of State was afraid that if this amount of a million and a quarter was to fall due it would hinder him in his financial arrangements if he took away a million or so of money from the Bank of England at that time?—Of course he was. When one has a number of operations to carry out for the benefit of India they are materially helped by an easy money market.

829 Let me tell you my personal experience. In the months of March and June 1908, the rate of discount had fallen to 2 per cent and Consols had gone up to 88, which was not the case in 1906, so when the Secretary of State and you boast of having been able to realise those large blocks of securities, I think you did not consider what position you were in in 1906 and 1908. He was afraid in December 1906, to put the proceeds of the Council Bills in the Gold Standard Reserve, although the Government of India held the Treasury Bills to be drawn upon, and the Government of India wired to the Secretary of State that they were breaking the law in being asked to do what they were asked to do?—That is a statement of the position that I should not accept. May I just add a remark? If your argument is that Consols in very large quantities would not be easily realisable in a difficult money market, I agree with you.

830 Will you look at the telegraphic correspondence, beginning with telegram to Viceroy dated 18th December 1906, page 149, in Appendix V? The Secretary of State did an unlawful thing, did he not, in buying four millions of silver to avoid his difficulty and sending it out to India, for which the Government of India had no need?—That I must really demur to. In Enclosure No 1 to the last despatch, No 76, dated 23rd May 1913, pp 207-8, you will see that there was no purchase of silver made in excess of the real requirements.

831 The Government of India said that they were forced to accept four millions sent to them for which they had no need, and which weakened the gold balances that would have been very useful for the next year?—I wish you to note that one part of the Government of India's statement seems to the Secretary of State to be so incomplete as to be almost misleading. The last word on that subject is in a document which has been recently added to the collection in Appendix V and which perhaps you have not got. It is a despatch from the Secretary of State to the Government of India, No 76, dated 23rd May 1913. The importance of that is that it does call attention to certain considerable omissions in that statement to which you have just referred.

832 I ask your attention to paragraph 5 of the letter from the Government of India, No 48, dated 29th February 1912, page 197, in Appendix V, you will see it said, "The Secretary of State, however, finally refused to earmark the necessary quantity of gold for the reason, among others, that he was obtaining 4½ per cent interest on his balances, and to enable to repay our forced loan from the Gold Standard Reserve he bought 4,000,000 worth of silver in March 1907. Our silver requirements for the year had been carefully calculated by us before that."—Without going into that statement in detail I say that it is a very incomplete statement that the Government of India made, and that it cannot be properly understood unless you read with it this despatch of the Secretary of State dated 23rd May 1913 and its enclosures.

833 What I am bringing to your notice is what the Chairman has already brought to your notice—certain circumstances of a difficult market, and to show how difficult the market at one time was?—Will you take it from me that I quite agree with you that at certain times the markets in London for the sale of securities are extremely difficult. I gather that that is the point that you wish to make, and I naturally quite accept it.

834 Again taking the Silver Reserve of the Gold Standard, has it ever been used up till now?—Yes

835 It was used wrongly, as is shown by the reference to the four millions I have just quoted, and it has never been used under necessity?—It has been used on several occasions. As you will see from the statements I have given, rupees have at times been taken from it and at other times put back into it.

836 I suppose that was done once?—More than once.

837 The Secretary of State asked to borrow from the silver of the Gold Standard Reserve, and it has never been repaid?—No—pardon me. Loans have been taken from it more than once, and I think it has been a great convenience to take money from it temporarily and to repay it at different times. If you care to have those particulars look at Statement A, Appendix III, page 97, and you will see three footnotes referring to three several loans at different periods.

838 After that chopping and changing we come to the crisis of 1907-8, and during that crisis at one time it seemed both to the Secretary of State and to the Government of India that the exchange might break down?—It seemed, you mean, to the mercantile public?

839 No, when the Government of India proposed to give 10,000l a day —?—Pardon me, let me put the true facts. We never had any doubts that the exchange would be maintained. I think that the Government of India at that time thought that it could be maintained with less support than proved to be actually required. That is the only significance of your incident of the 10,000l.

840 Before this crisis came the mercantile public of India were alarmed and suspicious, and questions were asked in the Legislative Council whether there was sufficient gold to maintain the exchange. Sir Edward Baker replied that there was sufficient for all possible contingencies. Then came the crisis, and the first result was that only 10,000l of gold was asked for by a man from the Accountant-General of Bombay, and the Accountant-General said, "Why do you ask for it?" And he wired to Sir Edward Baker, and Sir Edward Baker said, "Gold is not for export, it is only for internal purposes." That was the first move, was it not, that the Government of India took for safeguarding the exchange?—I should not in any way wish to criticise what the Government of India did. I think that in this hoarding up of their gold they did not show the best possible judgment, and that the Secretary of State took that view as indicated by the telegrams that you have in Appendix V. But that has little bearing on the question whether we did ultimately maintain exchange when this crisis occurred.

841 I do not think the Secretary of State said that?—I do not know whether you have seen this rather interesting telegram. The Secretary of State telegraphed out—"Please inform me if it is the case, as reported here that you have informed the exchange banks that you will not give gold for export while you continue to give it for internal purposes," and the Government of India gave a kind of explanation. I would draw your attention to the telegrams dated 21st and 27th November 1907 on page 164 of Appendix V.

842 I want you to look at the Secretary of State's telegram of 28th November 1907 in Appendix V in response to the Government of India in which he said it is a temporary measure to which he does not bind himself, which alarmed the whole Indian public. That was after receiving the advice of the Indian Government to sell or buy 250,000l a week. My object in bringing this to your attention is that fortunately at that time the Secretary of State was in a good position, otherwise, if he had been afraid to sell securities,

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[Continued]

what would have become of the Indian public and the exchange? Will you look at the telegram in Appendix V dated 6th December 1907, (page 166), from the Secretary of State to the Finance Department, "Banks should be told that this communication is made because you recognise advantage of letting them know your views and intentions, but that it does not convey a definite pledge, and that Government reserves discretion to act as it thinks best in any future case on consideration of all circumstances then existing." So it was not an absolute promise?—Let me put it to you that in 1906, 1907, and 1908, the Secretary of State and his Council and his advisers were all the same persons, and the policy that you see in these different years is the same policy all through.

843 The Secretary of State at last acted very boldly and saved the situation, and made a precedent for future guidance, I admit that. But our discussion is about the strength of the Gold Standard Reserve. You had at that time 23 millions in gold, you say 25 millions is quite sufficient, and yet the Secretary of State was not quite satisfied?—What you say is quite true. At the time that that telegram which you have just read was written, we were on the point of embarking on a course which was really unique, I think, in the financial history of the world, we were a little cautious in the language that we used so as not necessarily to make it a binding precedent for all future generations. Anyone else who was doing so huge and important a piece of business at very short notice would equally, I think, if prudent, have used those qualifying words. To all intents and purposes, as you very kindly said, we did the bold thing, and we did it on a very large scale, so that the history of that period does not indicate that we were hampered by insufficiency of means.

844 The Secretary of State has not guaranteed exchange at 1s. 4d., I think?—No.

845 If the Secretary of State does not guarantee exchange at 1s. 4d. should India not take her own course in making the exchange as permanent as possible, and sacrificing everything to that because the breaking of the exchange means the ruin of India?—As a matter of fact, although one does not want exchange to go down, supposing that the exchange did go down by a few 32nds for a short time, neither the Indian Empire would come to an end nor would Indian merchants be very seriously injured. I do not wish to minimise the importance of maintaining exchange, but I do submit that you should not exaggerate it, you should not speak as though India would be ruined supposing that the exchange were 1s. 3½d. instead of 1s. 3¼d.

846 Do you accept this, that the only currency and the right currency, whether standard or not, should be that by which you can transfer your wealth from one country to the other with only the loss of exchange and the cost of insurance and commission?—We have been trying all these years to build up the Indian currency system so that it may be as you have described.

847 You remember that exchange went down from 1s. 4d. after the closing of the Mint to 1s. 2?—It was to a little over 1s.

848 Do you know what that meant—reducing our wealth to one half?—Not to one half.

849 By about 25 per cent—16 to 12?—The value of the rupee went down.

850 If I had my fortune to transmit to this country, if I had taken my money out at 1s. 4d., I should have had to bring it back at 12d., and what had I done to suffer that loss, and yet Lord Morley speaks of things being fairly right, we do not want 'fairly,' we want it absolute. We want to put the exchange on a basis which the power of the Secretary of State or anybody else could not shake. After the crisis the Government of India have taken the lesson to heart, and that is indicated in the despatch of the Government of India, No. 89, dated 1st April 1904, page 168, in Appendix V. It is just a despatch with which every chamber of commerce and commercial community in India would agree, but that despatch is flouted

by the Secretary of State, and when they asked for 25 millions liquid gold the Secretary of State allows one million, and that not in gold, but to be lent on securities. If you do not agree with that statement how would you say the Government of India's recommendation was treated by the Secretary of State?—It was considered with great care and a reasoned reply, and I venture to think a convincing reply, was given to the arguments put forward in it. What was said in this despatch that the Secretary of State sent on 2nd July 1906 (see Appendix V, page 175), has to some extent been modified since, but I do not think there is a word or a sentence in that which, the present Secretary of State would not agree with. Also, I notice, you mention that the remarks of the Government of India were flouted, I do not think you will find a single sentence there which was not highly courteous and appreciative in its method of expression.

851 Yes, very courteous, but if I ask as an equal co partner for 25 millions sterling I am treated as, less than a clerk if you only allow one million in all, and that not in the way I wanted it. Is that very courteous? Of course, the language can be as courteous as possible, but was that right?—It is very difficult for me to argue these points, and I do not want to, take up the time of the Commission in giving my alternative summary of this despatch from the Secretary of State which you rather describe as giving one million when 25 millions were asked for. But I do want to make it clear that I do not accept your summary as being an adequate statement of the contents of this despatch of the 2nd July 1909.

852 Are the Government of India representative of the opinion of India?—Yes. If, however, you are putting this point, that in these matters the Secretary of State is called upon unhesitatingly and without qualification to do anything that the Government of India may put to him, then I say that that is not the constitution of India, and I also say that if he had acted on that principle all through, many serious mistakes would have been committed. I also draw your attention to the fact that at different times the Government of India have held different views on particular matters, and if your view were accepted one year the Secretary of State must do so and so because the Government of India wish it, and another year he must do the opposite because the new Government of India does not wish it, that is not the way in which the Empire can be carried on.

853 Does that mean that London and the London financial world is too much represented on the Secretary of State's Council?—I think if I wished, and I say this in the friendliest spirit, I might take exception to that question as being on a matter which is very much outside my sphere, but since you have raised it, it gives me the opportunity of saying that for many years I have had to do with the Finance Committee of this office and with the London financiers who take a certain part in the deliberations of the Finance Committee, and if you mean to convey that there is any difference between the interests which those men attempt to serve and the interests which the Government of India attempt to serve, then you are mistaken. We are all working to the best of our ability to serve the same interests.

854 All the arguments in the correspondence in Appendix V that you have put in are all "probably" and "fairly," but in a matter of the exchange, where it is the life and death of the country, should not the security be absolute?

855 (Sir Robert Chalmers) Is not that the whole object of the policy?—The whole object of our policy is to give security of exchange, and at the same time I should add this, not to sacrifice other interests, which are at least as vital to that particular one.

856 (Sir Shapurji Broacha) If, for all that, India is willing to lose interest, if her Chambers of Commerce are willing to lose interest, and if they want liquid gold, what does the million and half of ultimate profit matter—they do not want it?—That is really important. The effectiveness of a Gold Standard Reserve depends primarily on its amount. If by a certain course of action you convert a reserve of 16,200,000 into a reserve of

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[Continued

18,500,000l, you have to the extent of that 2,300,000l given greater security to exchange. That I think is obvious and elementary, and that is what the Secretary of State has done by this policy of earning interest. It may be right or it may be wrong for a variety of reasons, but it has undoubtedly added to the security of the exchange value of the rupee.

857 If this country were to go on at the same rate of expenditure on the Army and Navy as before the Boer war they would have largely reduced the national debt by this time, or paid it off, is it not that they are spending the vast amount they are for an absolute security and not for a comparative security, and is not this subject that we are dealing with a matter of the same kind and even of greater importance to India?—I do not think we can get very far in this discussion, but I can sum up, I think, the difference between us, and then perhaps we might leave it to the Commission. You would say, as I understand you, that 16,200,000l in gold gives you more security than 18,500,000l in securities, because you would say that although the amount is less the certainty of having that when you want it is more. I should say, and I hope I am right, that 18,500,000l of securities is better than that, because the advantage of the amount is something clear and tangible and the realiability is sufficient for any reasonable need. But whether we are right or wrong, I do not think, if I may put it, that we shall get much further than that, you have put very clearly the difference between us, and I think we might now leave it.

858 No, I am going further. If this were done in the interests of the London market would not the London market be better off by allowing India to accumulate gold here?—There is one thing to which—and you will not mind my saying so, will you?—I always take exception, and I think it is my duty to do so. Whenever it is suggested that the affairs of the India Office and of the Indian Empire are conducted in the interests of the London market, I always venture in respectful language to take exception to it, because it is not only contrary to the fact but it conveys a very harmful impression.

The witness withdrew

At the India Office, Whitehall, S.W.

FOURTH DAY.

Friday, June 6, 1913.

PRESENT

THE RIGHT HON AUSTEN CHAMBERLAIN, M P (Chairman)

Lord FABER  
Lord KILBRACKEN, G C B  
Sir ROBERT CHALMERS, K C B  
Sir ERNEST CABLE  
Sir SHAPURJI BURJOEJI BROACHA

Sir JAMES BRIDIE  
Mr ROBERT WOODBURN GILLAN, CSI  
Mr JOHN MAYNARD KEYNES  
Mr BASIL P BLACKETT (Secretary)

Mr LIONEL ABRAHAMS, C B, recalled and further examined

863 (Sir Shapurji Broacha) Will you refer to paragraph 7 of the letter from the Government of India to the Secretary of State, No 89, dated 1st April 1909, page 170, in Appendix V? It is there said, "The point is one on which informed public opinion in India is singularly unanimous. We are frequently asked why we strain after interest on the reserve, which is the basis of our currency system, and, consequently, one of the chief pillars of the credit of India, and it is pointed out that other countries are careful to retain the ultimate foundation of their credit in bullion

859 Let us take this gold reserve in another way. Supposing England were engaged in a great war and all the securities had gone down, I do not know whether you will admit or not that if England were engaged in a great war, within a fortnight the Bank of England would have to stop payment of gold?—I have often thought, I may say, of the problems arising out of that. The question what would happen in the event of a suspension of specie payments is a subject that is very familiar to me.

860 How then, shall we sell either short dated securities or long dated securities? Is it not a fact that two millions more of gold in the Bank of England now would have a greater effect on the rate of interest than 50 millions and more of securities? I am dealing with liquid gold and gold in securities, and I am talking of nothing else?—I understand fully up to now the arguments in favour of having metallic gold, but I think you are developing a new argument which I do not follow.

861 If India were allowed to accumulate gold—and India is the only country that could accumulate gold—would it not be the saving of the Empire at the time the Bank of England had no gold left?—My own view is that it is not the business of India to save the Empire. The business of India is to look after its own affairs.

862 Supposing we have 50 millions, then I do not think the Bank of England would be under the necessity of going to France to borrow three millions?—I have the greatest respect for the Bank of England, but it is not our business, unless it happens to coincide with our interests—

(Sir Shapurji Broacha) We are considering our interests, you know. I am a broker of over 49 years' experience, and I could not get an advance on a lakh of rupee paper at one time. We are always spending millions in preparing for war, but those millions are for one day only, and what we are now preparing for is that one day in India when the Secretary of State will not pay our losses, that is certain.

"Moreover we conceive that the position of the Government of India in the markets of the world would be much stronger as the possessor of a large store of liquid gold than as the possessor of a corresponding capital in consols or similar securities. In the former case, the Indian Government might in an emergency be powerful to help the market, in the latter there would always be the potential danger of their wishing to renege at an inconvenient season. That being an opinion expressed in 1909, the Government of India hold the same opinion still, do they not?"

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[Continued]

They hold the same opinion as regards the advisability of having a large part of the reserve in gold. Whether they hold all the opinions that are expressed in the passages you have read, I do not know, it is quite possible that the reply of the Secretary of State to this despatch has converted them on some points.

864 (*Lord Faber*) By "gold," in the reply you have just given, do you mean metallic gold?—Yes, I may say that I always mean metallic gold when I say "gold."

865 (*Sir Shapurji Broacha*) Do they hold the same opinion about not diverting any of the profits on coinage to public works?—Their opinion has always been in that matter, since 1907, that at a certain time the profits on coinage ought to be used for public works. In 1907, as you will see from the correspondence in Appendix V, they thought that that could be done when the reserve exceeded 20 millions, now the scheme is to do it when the reserve exceeds 25 millions.

866 I am asking whether there has been a change of opinion during the four years since 1909, I am not talking of 1907?—At the present time the Secretary of State and the Government of India are unanimous in holding that, on the whole, the best course is to let the reserve accumulate to 25 millions before any portion of the coinage profits goes to public works.

867 Then the Government of India have not changed their opinion within the last four years?—No. There is just one point to add in order to make that answer quite correct—I am not sure whether 25 millions was the figure that they mentioned in 1909.

868 Lord Faber asked you whether you would not exhaust all the gold if all the rupees in India were tendered. So long as we have a gold standard the Currency Office is not bound to pay gold against rupees, is it?—That is so.

869 Therefore they have to take the rupees to the exchange banks for foreign buyers?—Do you mean that a holder of rupees has to buy gold?

870 If he wants gold he must go to the banks that finance the export trade?—If I follow you rightly, you are on the question whether, if every holder of rupees who wanted gold tried to get it from the Government, the Government would be able to satisfy all demands is that it?

871 No, the Government has the power to refuse?—Actually the practice of the Government has always been to give gold freely from the Paper Currency Reserve in exchange for rupees, and I interrupted you because I do not wish you to give the impression that the Government holds in reserve a power of economising its gold when occasions for giving it out arise. The Government has not really held that power in reserve.

872 There are more often rupees in India than gold?—Certainly.

873 If all the rupees were presented there is not enough gold to give in return?—Quite so.

874 Against that we are on a gold standard, but have not a gold currency?—Yes.

875 If there was a gold currency, then it is possible that the currency for issue would fail if all the silver were tendered?—Do you mean that if there was a scheme under which the Government undertook to give gold for rupees without limit, then that scheme might break down through a deficiency of the supply of gold? Of course I agree with that—it is obviously correct, but I do wish to repeat what I said in answer to Sir Robert Chalmers, that no one, so far as I know, in the whole history of the world has ever set up a scheme under which such an obligation would be undertaken by the Government.

876 There is no fear of that happening so long as we are on a gold standard and not on a gold currency?—I think that we are at one. I will not dwell on a point of language, but I think that what you mean commands my humble concurrence.

877 (*Sir James Begg*) The gold standard reserve is peculiar, is it not, to the Indian currency system?—Not quite. I think you will find that some of the eastern colonies, certainly the Straits Settlements, have a gold standard reserve, in a small way I think the Philippines have one. In addition I know,

because I was a member of the Committee that helped to establish it, that in a very humble way West Africa has a similar reserve.

878 I was speaking more of the old gold standard countries in the world, none of them have it, have they?—No, in fact the gold standard countries in the older sense of the word scarcely have such a reserve, except so far as the reserve of the Bank of England is in a sense a gold standard reserve.

879 That is different to the gold standard reserve in India, which is accumulated from the profits on the coinage?—Yes, as regards its origin it is entirely different. I meant as regards the purpose that it serves, that is to say, maintaining a stable exchange with other countries, there are points of resemblance.

880 Do you think the Committee of 1898 anticipated there would be a coinage of rupees on the scale that has taken place when they recommended a special reserve of this sort?—I do not think that one can answer that question, and I may put to you the difficulties. On the one hand it is quite clear that they did contemplate coinage in the future, because they provided what should be done with the profits of such coinage, but as far as I can gather, they probably thought there would be less rupee coinage than has actually taken place, because they expected the gold would go into the currency rather more freely. I give that merely as an opinion, and I can quite understand that others who were present at the meetings of the Committee, or who read the report, may take a different view.

881 As a matter of principle, do you think it advisable to have a token coinage on such a vast scale as in the case of India?—No. I think that if the proportion of the token coinage to the gold currency gradually falls it would be a good thing. But I should like to say—and this is equally important to my mind—that I think it would be a very evil thing that the Government should take steps to divert the feelings of India with regard to the currency metal that they prefer into any other direction than what they would naturally take.

882 But you would not object to them encouraging the use of gold?—I do not like to be too much of an optimist, but I think at the present time they do exactly the right thing. They practically allow anyone to choose the metal that he prefers, subject only to this, that at certain times they cannot give gold when, owing to adverse circumstances, the stock in the Reserve runs down. Except on those special occasions they allow everyone a free choice, and I think that is the right policy.

883 I think you said yesterday you would not undertake the legal obligation to pay gold for rupees?—That is so.

884 There is no such obligation?—No.

885 Is that not a reason for encouraging the use of gold coins, and also restricting as far as possible the issue of fresh rupees?—No doubt you have read through these various papers. The policy that has been pursued consistently has been not to coin rupees beyond the amount that is necessary, when I say "pursued" I mean what has been recognised as the ideal policy. In the early years of this system, in 1900, as you know, that was carried to a very unfortunate extent. You have read the history of how the Currency Office at Calcutta had to close before the right time because there were not enough rupees. Since then there has been one occasion when it may fairly be held that there was an excessive coinage of rupees, in 1907, and in order to prevent anything of the kind recurring, a better scheme, and a more economical scheme of coinage has been laid down and is now followed.

886 Do you refer to the Secretary of State's despatch of 18th February 1910, No. 25, in Appendix V (page 185)?—Yes.

887 Am I correct in understanding that the profits on silver coinage are usually coined into rupees?—I think that is meritable really. You buy so much silver and you coin it into rupees, then you find that a certain portion of it represents the equivalent at 1s. 4d. per rupee of the amount spent on purchasing the

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silver, and then there is so much left over, and that is the profit

888 And that is coined into rupees?—Yes  
889 If you coin the profits into rupees do you get any profit on that coinage?—No Let me put an extremely simple case You buy 100l worth of silver, if you are making no profit that silver would coin simply into 1,500 rupees—but you find actually that it coins, say, into 2,500 rupees—I am giving an illustrative figure merely That extra 1,000 rupees is the profit, and having been once realised it does not yield a further profit at compound interest, as it were That is a profit that has once been realised Then the only question which arises is in what form are you going to keep it

890 It seems to me that if you coin the profits into rupees in this way you are not collecting all the profits on the coinage which you ought to get Let me give you an illustration supposing a million sterling, we will say, passes into India in sovereigns and is presented at the Currency Department you pay out in exchange for those sovereigns a crore and a half of rupees, so that all that you have to do in order to replace the rupees is to buy enough silver to coin a crore and a half, is that not so?—Yes

891 The difference between the cost of the silver to produce that number of rupees and the gold received is the profit?—There are two ways in which one can regard it, and I do not think there is any thing really between us I began with the assumption that you spend a given sum, say, 1,000,000l, on buying silver, out of which you get, first of all, the crore and a half, which represents the million, and then, say, another 75 lakhs, or whatever it may be, and then I said the 75 lakhs is the profit I think that you differed from me in this way, that supposing all one wants to get is 150 lakhs net, then your way of putting it would be to spend not 1,000,000l on buying silver, but 700,000l and then you would get you 150 lakhs, out of which, say, 300,000l worth, 45 lakhs—of course I am making up the figures as I go along—would represent the profit Although they look a little different at first, in essentials our two methods, I think, are the same, except that they deal with different quantities

892 My point is that when you coin that difference between the cost of the silver and the crore and a half of rupees, the reserve does not get all the profits that it ought to get?—According to what seems to me the simplest way of looking at it, the coinage itself is a purely mechanical operation When you have completed your coinage and coined the right number of rupees, then you make up your accounts and see that so much represents the cost price of the silver that was used, and so much extra you hold in rupees, and that represents profit

893 Take it another way round In the case of a million sterling going into India do you use the whole of that million to buy silver with?—No, I think, if I may say so, that that is where a little difficulty arises in the way of our completely understanding one another You do not say I have had a million sterling tendered to me and I will use that in order to buy silver What the Government says is Our stock of rupees has gone down to a certain level which is not a safe level, because it does not provide us with enough rupees to make sure of the convertibility of our currency notes Therefore, from time to time the Government increases its stock of rupees by the purchase of silver But whether it buys silver at any time and how much it buys, does not depend on such operations as you have mentioned as, for example, the tender of a million sovereigns in exchange for rupees, that is some time previously to the coinage

894 Will you kindly take my point of view and tell me this If you do use the whole of the million sterling to buy silver, you coin that silver into 2½ crores of rupees, roughly?—Yes

895 Then you get the same profit on the whole operation, do you not?—I should say—and I think that this is the only method by which one can consider it without a possibility of error, that you take your 250 lakhs, consider how much of it represents

the equivalent of cost price, and how much is surplusage, and that surplusage is the profit

896 And that profit goes into the reserve to be held against the total amount coined by that sum, so that the reserve gets, we will say, 300,000l profit, which you hold against the coinage of the 2½ crores?—No, I do not think you are right there Taking the figures that you have taken, 100 lakhs out of the 250 go into the reserve You mentioned the figure of 300,000l, I do not know if you meant it The amount that goes into the reserve is the equivalent, on the illustrative figures that you took, of nearly 700,000l, perhaps that is where we have been at cross purposes

897 I do not think so The cost of the silver to replace the million sterling in silver rupees is about 700,000l so that you get the difference between 700,000l and 1,000,000l to go to the reserve, which is 300,000l?—That is on the supposition that you spend 700,000l only

898 Yes, so that the reserve then holds 300,000l, not against the crore and a half, but against 2½ crores of rupees?—I still think that we are at cross-purposes through taking different figures When you speak of that 2½ crores of rupees it all follows on the assumption that the 1,000,000l has been spent to buy silver I gave an alternative assumption at one stage that 700,000l had been spent, but if you assume that the million has been spent and that it produces 2½ crores of rupees, then the result is that 150 lakhs, the crore and a half, is treated as the equivalent of the gold or sterling money that was spent, and then the remaining 100 lakhs is the profit, and of course, as you know, that at the usual rate of conversion comes to nearly 700,000l I think, if I may so put it, because I am sure one does not want to dwell too long on an intricate point, I may say that our gold standard reserve gets every rupee that can possibly go into it with one exception which I will mention to you, if you care to have it—I do not know if you are interested

899 I only want the general principle?—The only thing in which, perhaps, we have not treated that reserve as generously as we might is that when bills on London were sold by the Government of India, the Government of India only put in 15 rupees for each £ that the Secretary of State disbursed, whereas they ought to have put in on some views 15 rupees and a fraction because of bills having been sold at 1s 3½d Apart from that, the reserve gets every anna that can possibly be given to it

900 Do you not think it is a disadvantage of a system of coining profits into rupees that the currency is unnecessarily diluted with token coins?—No As regards the preamble of your question, I do not see how you can avoid, as you say, coining profits into rupees You cannot coin a single rupee without making a profit on it It is incidental to the whole system that if you coin one rupee a year, about five annas would have to go into the gold standard reserve That I merely say in passing On the question of diluting the coinage unduly, I venture to disagree with you rather strongly In principle we are at one, that is to say, we recognise that it would be a most serious danger if a coinage of rupees took place beyond what is necessary I think every reasonable precaution is now taken to keep down the coinage to what is absolutely required If at any time anyone suggested to the Secretary of State a further precaution against over-coinage, and it was a reasonable suggestion, I am sure he would welcome it, as our object has been all through to limit the rupee coinage as much as necessary

901 In paragraph 7 of Appendix III you suggest on page 89 that “it will be an excess of caution to hold in gold in England more than 5 millions, more especially if, as I hope will be the case, the present practice of holding a portion of the paper currency reserve in gold in England is continued” Your idea is, I think, to use the gold for the support of exchange?—Yes

902 You are, of course, aware that the reserves of the paper currency are governed in India by statute?—Yes



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903 Is there any statute providing that the reserve is to be used for any other purpose than to redeem notes?—I cannot point to a particular section of the statute which provides that it should be used for any other purpose, but the whole scheme of the statute is one which allows gold to be held, and to be held in England, obviously with the intention that at certain times the Government of India may substitute rupees in India for gold in England, so as to give the reserve a utility beyond its primary purpose of redeeming notes. I should like to add there, on a point of principle, that when one is dealing with such huge sums as are in the paper currency reserve, sums which amount, if you include securities, at the present time to over 40 millions sterling, it would be a great mistake to take the narrowest possible view and to say that you shall not use this great sum for any of the purposes that it can serve in addition to that of securing the convertibility of the notes. If one did take that narrower view one would, I think, be departing from the practice of most or many of the most financially progressive nations. I believe that Japan and the German Government, and other Governments whose practice deserves a great respect and consideration, do somewhat enlarge the use that is made of the paper currency reserve.

904 Does the Indian statute, that is, the Paper Currency Act, bind the Secretary of State, who holds the London portion of the reserve? Is he subject to the provisions of that statute at all, is he obliged to carry them out?—That is rather an interesting constitutional point. I do not think there is very much substance in it, and I will tell you why. The Secretary of State in theory might act as though the statute did not exist—that is your first point, which I agree to, but if he did so, and if the gold disappeared from the paper currency reserve, then it would be obligatory on the Government of India, who are bound by the statute, to make good the reserve in some other form. The Government of India have to hold so much,  $x$  rupees minus any amount the Secretary of State holds, and if that minus comes to be nought, then the Government of India have to hold the full  $x$ .

905 As a matter of fact the London portion is not subject to any statute, is it?—I agree with that, but, at the same time, I am anxious not to let it appear to be a more important fact than it is.

906 Is it not possible that the fact that it is declared to be held in England in support of exchange may be misunderstood in India?—Would you say in what way it would be misunderstood?

907 For example, you say that you hold the reserve here to support exchange, in India it is held for the redemption of the note, and people might begin to talk and say, Here is so much gold held outside of India for a different purpose to what it is held in India. Might that not affect the credit of the note issue?—I think actually the time has come when—it will no doubt be done when this Commission issues its report—a rather fuller statement is desirable for the instruction of the public in India as to the way these various reserves are managed. I imagine, if I may say so without presumption, that one of the advantages of the Report of this Royal Commission is that it will probably contain the desired information, and contain it as coming from the best possible source. Until that is issued I agree that there may be some misunderstanding.

908 In paragraph 8 of Appendix III, page 89, one of the reasons you give for the opinion that there is, *prima facie*, an overwhelming balance of advantage in holding in London the main part of the reserve is that payments of trade balances due by India to other countries have to be made in London, so far as this reserve is concerned, remitters would have no option, would they, but to settle through London?—No. Of course they have the advantage of buying a bill on London, and then they have the usual method of buying from London a bill on Berlin or Hamburg, or whatever they wanted.

909 Quite so, but there is no option to the people in India to settle the trade balance with any other

countries than through London?—I think that is correct.

910 If the reserve was held in India, and gold was issued in place of bills on London, the remitters would not be obliged to settle the trade balance with other countries through London, would they?—Do you think that is so? Supposing a remitter was anxious to send 50,000 sovereigns from India on the assumption, which you are evidently taking, that he would get the sovereigns in India from the gold standard reserve, I should say the probability is that he would send his sovereigns by the P & O, and would have them either transhipped to the ultimate foreign destination, or would buy in London with the sovereigns a bill payable at the city where the debt has to be paid. I think that is the ordinary course of business having regard to the fact that London is the financial centre of the world.

911 Still, you might have gold going from India to Austria or to France?—Yes, you might have a very slight advantage in that way. I do not wish to be obstinate, but I do not think that there is very much substance in that advantage.

912 It is a great advantage, is it not, to have a currency system that works automatically?—Yes, as far as any currency system can work automatically, and I may say that the Indian is as automatic really as any currency system.

913 You say it is?—Yes, I think it is. Certainly the object of all the changes that have been made in the development of the Indian currency system has been to make it as automatic as possible.

914 Take the case of 1908-9, when you had a very large accumulation of rupees in the gold standard of India, these rupees were drawn upon in London by means of council bills, were they not?—Yes.

915 I think you began to draw council bills at a very low rate of exchange?—You know the limit, 1s  $3\frac{3}{4}$ d is the lowest.

916 I am talking about bills drawn in London on India?—Yes, and I say 1s  $3\frac{3}{4}$ d is the lowest rate at which the Secretary of State ever sells his bills on India. I think I mentioned that at an earlier stage.

917 In this case you began to draw under 1s 4d but you cannot give us the exact figures?—That is quite right.

918 Do you consider that that was more automatic than if gold had been allowed to go into India?—I do not think that there is any difference as regards the automatic working of the system. Certainly I do not think that the rate makes a difference. Supposing that the gold had gone to India and rupees had been issued in exchange, that would, in a certain sense, have been an artificial transaction, the Government undertaking to give rupees from a certain stock that it has in exchange for another form of legal tender money. Up to a point that is artificial, but which is no more artificial than the things that have to happen, say, in a full gold standard country. Then you suggest, as I understand, that the fact that the bill was sold, say, at 1s  $3\frac{3}{4}$ d instead of 1s  $4\frac{1}{4}$ d per rupee adds a new element of artificiality, that I do not follow.

919 In the case of gold, gold would not go to India, I take it, unless at cost price, which would be something over par?—Of course you can never tell. When gold is on its way from Australia to London it sometimes is diverted to India at a very low price to the owner.

920 That makes it artificial, does it not?—What I was putting to you is that what is from some points of view regarded as a most natural arrangement is in itself artificial up to a point. I am assuming that gold belonging, say, to the National Bank of India, which is on its way from Australia to London, is, owing to circumstances, delivered at Bombay and exchanged for rupees. The point I am putting, and it is a very simple point, is that that is about as much or as little an artificial transaction as the selling of bills by the Secretary of State to liberate rupees.

921 Still, do you not think that the sale of council bills at a low rate competes with gold?—It does to some extent, but then you must remember that the primary object, though not the sole object, of selling council bills is to enable the Secretary of State to

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bring home from India his revenue requirements for the year. At a certain period of each year he is dominated by that, and it is then quite properly not his object to stimulate gold to go to India at the possible expense of his having a shortage in his drawings. Of course you, being so familiar with Indian finance, know the conditions are very different, say, in April, May, or June, from what they are in December or January.

922 I quite agree. In the case of the Secretary of State drawing to lay down funds for his own treasury what you say is quite correct, but the case before us is the case where the Secretary of State drew bills in London against the gold standard reserve in India, and he began to do so at very low rates of exchange. The point I wish to bring out is whether in doing so he did not prevent gold from going to India and was thus competing with gold, because, if so, then it was not automatic?—I am going first, if you will allow me, to draw your attention to some matters of fact. You speak in very general terms about drawing bills against the gold standard reserve at a low rate of exchange.

923 He began to do it, but he did not continue it?—That is so. I was rather anxious to put in this. The greater part of the bills drawn to restore the gold standard reserve in London after that crisis were drawn in the year 1909-10, when the average rate of exchange, according to these figures\* of Mr Newmarch which I have before me, was 1s 4 0/10d, but a certain amount, the early bills to which you refer were certainly drawn in 1908-9, when the rate of exchange was 1s 3 9/10d.

924 That was the average rate?—Yes.  
925 So there must have been sales below that rate?—Yes. I will not do the arithmetic in my head, but the average rate is obviously something between 1s 3 1/2d, which is the lowest price, and the highest price, whatever it was. In both halves of 1908-9 the average rate was much the same, in the first half it was 1s 3 9/10d, and in the other half of the year 1s 3 9/10d.

926 Do you not think that those sales of council bills at those rates not only caused a loss of premium on the bills sold, but also a loss in the rate at which bills were sold to effect the ordinary remittances?—I am not quite sure that I followed the first half of your question. I think the first half of your question was to this effect—that by selling a little under 1s 4d the Secretary of State did worse than if he had received gold in India for the gold standard reserve.

927 That is not my point. He was anxious to get the gold for the standard reserve, but instead of allowing the gold to go into India he began to sell at those low rates, and therefore he lost the premium on the sales which he might have obtained by waiting, is that not so?—Yes, on the other hand, either he or other interests in India would have incurred a loss if he had reduced the sales, and then the gold standard reserve had been replenished first of all by the transmission of gold to India at a considerable cost, as you know, for freight and so on, with the ultimate result that when it has to be used in order to strengthen the exchange the gold would again have to be shipped from India to London, or to Berlin, or to Trieste, at a further wasteful expense of money. If one is considering the economy or otherwise of any of these transactions which involve the sale of council bills or the shipment of gold, one has to consider the effects in a very wide circle, because one effect leads up to another effect.

928 Still taking 1909-10, when council bills for about nine millions were sold against the gold standard reserve, do you not think that the fact that such a large amount of council bills were sold prevented a greater premium being obtained on the ordinary bills against the Treasury balances?—It may have had a very slight effect, but the great cause which keeps down the price in a year of heavy demand like 1909-10 is what I may summarise as cheap gold going from Australia. I need not enlarge upon that, I think you are familiar with the fact that gold goes from Australia very cheaply at times. If it is worth delaying you—

929 I do not think we need go into it further?—I was only anxious to mention how much gold actually did go to India in competition with council bills in 1909-10. It does bear somewhat considerably, I think, on your suggestion that the large sale of council bills was the cause of the premium not being as high as it might have been.

930 You have told us that the use of council bills for effecting remittances to India saves the loss (in the shape of payments for freight and insurance and loss of premium on council bills) which would be incurred if the remittances were made by shipments of gold, that statement, I suppose, applies to council bills drawn on the gold standard reserve?—Yes.

931 Is it not the case that the present system, as a whole, in the absence of a gold currency really increases the freight and insurance charges on the movements of specie in connection with the currency? When you save the cost of remitting the gold from India by drawing council bills the cost of remitting silver to take the place of gold is incurred, is it not?—That I would most strongly contest, because it rests on the assumption that if the Government acted rather differently from the way in which it does act, the people in India would use less silver. That, I think, is opposed to all the probabilities and all the known facts.

932 I think you misunderstand me, that is not my point, my point is that the present system really incurs a greater expense in the way of freight and insurance than a gold currency would?—But the greater expense, I understand, arises from the fact that silver has to go to India.

933 Yes?—Supposing we had a gold currency, one has to consider whether less silver would be used in India, and in order to consider it one has to put a very definite meaning on the words, "If one had a gold currency." Actually I should say that we have a gold currency at present, only the people of India, for a number of reasons, do not use it very freely. There is no one in India who has 15 rupees, who, if he desires a sovereign cannot get it.

934 That is not quite what I am trying to get at?—I am anxious, if I may, to dwell on this point the people who discuss this question often put the query, why does not the Government give India a gold currency? I am anxious to say that in my humble judgment, that is, I will not say, a meaningless question, but I think it comes very near to being a meaningless question because the Legislature has declared gold to be a legal tender. The Government gives all the encouragement that it can to put into circulation such gold as it possesses, and therefore up to the requirements of the people of India there is a gold currency, and the obstacle to gold being more used as currency is not that the Government of India fails to encourage it, but that the people of India prefer other forms.

935 When council bills are drawn on account of the gold standard reserve, and they are drawn at a premium, does the premium go to that reserve, or how?—It does not. I mentioned to you before that that is one thing of which the gold standard reserve, if it had a voice, might complain. The practice is as I explained to you the other day, not to draw a specific bill against the gold standard reserve, but to appropriate to the gold standard reserve so much, which will probably be in round hundreds of thousands of pounds, from the total proceeds of council bills. Then the Government of India take out of the gold standard reserve rupees equal to 15 times the amount of sovereigns. If anyone urged that they ought to take not 15 times but a rather different amount, then I have nothing to say against it, but I do not think it is an important matter.

936 The importance, I think, is in the fact that you put it down here as a reason for the location of the reserve in London that freight and insurance charges are saved?—I would remind you that if you save the premium you have saved it, whether it goes to the gold standard reserve so as to be held up in that reserve, or whether it goes to the general taxpayer so as to reduce the burdens on him. It is always a good

\* See Appendix VII page 232

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thing to save it, into whichever pocket the taxpayer puts it

937 Am I to understand that the profit of the premium goes to the general taxpayer where there is a premium?—I believe so. Mr Gillan will perhaps say whether that is his recollection, but my recollection is that all these adjustments as between England and India with respect to a gold standard reserve are effected at the rate of 1s 4d and not at 1s 4d plus or minus a fraction.

938 (Mr Gillan.) It goes into the profit on exchange?—That is my recollection, that it goes into profit on exchange, which is a head of the general revenue

939 (Sir James Begbie.) Taking it the other way about, if the bills are drawn in India on London at a discount, how would that work out?—It sounds very greedy to say so, but there is a profit either way. When bills are drawn by the Government of India, instead of taking from the public 15 rupees for each sovereign that is to be given out they take 15 1 rupees, or whatever the fraction is, and then I am afraid the Government of India put that 0 1 rupee under the head Mr Gillan was just mentioning, and use it for the advantage of the general taxpayer. I imagine that both the Secretary of State and the Government of India attach no very great importance to that, and if anyone thought it ought to be dealt with differently I do not think any obstacle would be raised. I remember, I may say, that years ago, when I was Financial Secretary here, I thought of raising the question, and my only reason for not doing it was that I was busy with much more important things, and I thought we might leave the Government of India un criticised in that matter.

940 The reason frequently given for selling council bills is that it is in the interests of India to prevent the withdrawals of gold from London?—That is a reason, but a minor reason.

941 Is it not a serious disadvantage to India to be in the position which occurred in 1908, namely, to be obliged to borrow and at the same time to sell securities belonging to the gold standard reserve on a very large scale?—Of course there is a disadvantage in that, but if one were considering the matter fully, one would compare it with the advantages that this system possesses and also with the disadvantages that would arise from any other alternative system. So far as your remark goes, I agree with it that to have to sell securities when you are borrowing is a bad thing.

942 An objection which you have indicated in paragraph 9 (C) of Appendix III (page 89) to the reserve being held in India is that when the gold came to be shipped to London a delay of about three weeks would occur?—That is so.

943 In 1908, when the reserves were largely drawn upon, were the drawings in the form of bills?—They were in the form of bills.

944 And only bills?—Yes. The question whether transfers would not be a better form is, I might say, a very reasonable question, and it is worth mentioning here. I think that this sale of bills in 1908 was the first of its kind. Although the India Office, I think, has some reason to be pleased with the general results of what was done it is not so foolish as to think that it reached perfection at once, and no doubt on any future occasion some things might be done differently and better.

945 At any rate the difference in time between bills and shipments of gold would be about a week only?—That is all.

946 Do you think if the reserve were held in India there would be risk of the gold being used otherwise than to support exchange?—I think that there is a risk, but whether it is a great risk I do not know, and you probably are in a much better position to form an opinion. It seems to me that if the Government issued very large sums in sovereigns on the understanding that they were to be shipped, it would be very difficult for it to set up a kind of detective agency to make sure that the shipments did take place.

947 You do not think the difficulty would be insuperable, do you?—That is a practical question on which your opinion is worth much more than mine.

948 When was the practice of issuing gold to the public in exchange for rupees instituted?—I think it was done as soon as the Government of India began to have gold in 1900, in fact I dare say you remember there was some criticism based on the view that Sir Clifton Dawkins was over anxious to issue gold and rather forced gold on the public. I think a little less vigour was displayed after 1900, but in essentials the practice has continued from when the Government of India first received gold.

949 Have any regulations been laid down for carrying it into operation?—I think there are orders in the most general terms to officers in charge of currency centres that they are habitually to give gold to the public in exchange for rupees when the public desires. Then, on one occasion at least, as you know, in 1907 or 1908 the operation of these orders was partly suspended under a scheme which the Secretary of State thought over cautious. Subject to that suspension in 1907, I think the whole thing is governed by a very few sentences.

950 It is a rather important point when the rupee reserves are very high, is it not? Would you issue gold to the public when your reserves were laden with rupees?—I think that if the conditions of trade were good and there was no immediate prospect of a fall in exchange, the right policy would probably be to issue gold to the public freely, even when there is not much gold left, because when you are speaking of the reserves being very full of rupees you imply that there is not much gold in them at such a time. Even at such a time my feeling would be in favour of letting the gold go freely unless there were special reasons for holding it up.

951 I thought that you rather complained about the way the gold went out in India in 1907-8?—No, I do not complain. My view—I do not know if other people hold it—is that we have two gold reserves which serve two different purposes. I am very anxious that the difference between those two purposes should be recognised, and that the gold standard reserve should not be used for the same purpose as the paper currency reserve of gold, that is to say, that it should not be dissipated in good times. Subject to that, it seems to me a reasonable thing that the gold from the paper currency reserve should go out as it did in 1907-8 only in my memorandum I have said that the sudden efflux of gold was probably not a support of exchange. I merely made that remark as I wished the fact to be noticed.

952 You say you can give reasons, if necessary, to show that if sovereigns are to be issued at a time of an unfavourable trade balance for the purpose of preventing exchange from falling below the gold export point, the rate at which they ought to be issued must be at the established rate of 15 to 1?—Yes.

953 It would be very useful if we could have those reasons submitted?—They are exceedingly simple. You may assume that there is a certain fixed cost of sending home gold from India to England—you can call that ½d per rupee, but of course one knows that it is rather doubtful. If a bank applied to the Government of India for gold and got it at 1s 4d, and then sent the gold home the effective rate of exchange from the point of view of that bank would be 1s 4d minus ½d, that is to say 1s 3½d, and so long as you kept the exchange at that rate or above it, you would have maintained the exchange. Supposing that instead of doing that the Government of India issued its gold, say, at the price of 1s 3½d,—one can take that figure—and then the bank had to send the gold home and still pay this ½d for expenses, then, from the point of view of the bank, the effective rate of exchange would be 1s 3½d minus ½d, that is to say, 1s 3d. By instituting this different rate of 1s 3½d the Government of India would simply have failed to support exchange, they would have put exchange down on the figures that I have given you to 1s 3d, and the only way they can keep it within the gold points is in the way that I have mentioned. I hope that that is clear to you.

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954 Quite. Does not that same argument hold good the reverse way about? When you issue rupees in India, if you issue rupees in India below the equivalent of 1s 4d, then you destroy the standard, do you not?—No. My view, which I tried to develop very briefly in answer to a question of Sir Ernest Cable, is that you keep up your standard when you keep the exchange within what they call the gold points. What I was putting to you was that if you let the exchange fall below the exporting gold point, then you have failed to maintain exchange. I hold with equal firmness that if you keep it within the gold exporting point, then you have not failed to maintain exchange. I think I may say that economists generally, who deal with this sort of subject hold the same view as far as I know.

955 Regarding the amount in reserve you said that the statistics of 1907-8 illustrate the effects of as severe a period of adversity as it is reasonable to expect?—I think so. I know that is a very large proposition, but I put it forward with very fair confidence.

956 Have you taken into account the great advance made since that year in the import trade?—I quite agree with you that if 25 millions, which is the figure that has been mentioned, was suitable in 1908, and only just enough, then the gold standard reserve ought gradually to increase, and in any scheme which I have put forward provision has been made for such a gradual increase.

957 Yes, but you put considerable emphasis on the statistics of 1907-8?—I merely wish to use them, not as showing the final amount that the gold standard reserve ought to be allowed to reach, but as a basis for reasoned discussion on the subject, because I feel very much that there has been a vast amount of discussion on the subject on the basis of mere guesswork.

958 I would like to ask you also if you have taken into account the fact that people in India are now being attracted by investments in Europe?—Do you mean that there would be exports of capital for that particular purpose?

959 Yes?—I must confess that that is a point which has not occurred to me. In any case, I would maintain that you should take the standard of 1907-8 as your basis, then you can make such additions as changes, either in the import trade or in the habits of investors, and so on, necessitate.

960 Do you recognise that with the growing wealth of India and the vast additions to the currency which have taken place in recent years, the tendency of interest and discount rates has been in a downward direction?—Yes.

961 And that if that prosperity continues, the rates of interest must inevitably cheapen still further?—Yes.

962 With the possible result that a strong demand may arise for further investments in England and elsewhere?—I recognise that you do not put that in any controversial way.

963 Certainly not?—Therefore I need not be so guarded in my answer. I am not sure at the moment that a great demand for sterling investments is likely to occur at a period of bad exchange.

964 It might precede it?—Yes.

965 Or it might follow it?—Yes. I should have thought, generally, that investments would go on, subject to conditions which would not be very much affected by a period of bad trade, or of unfavourable exchange, except that bad trade would, so far as it had any effect, rather check foreign investments by Indian holders.

966 Such investments, if made, would act on the exchange, would they not?—Yes.

967 Have you considered this point—that the high prices of commodities exported have had an important effect on the favourable balance of trade?—No doubt.

968 And through that balance on the additions to the currency?—That is so.

969 May it not be that the great additions to the currency necessary to the conduct of trade in consequence of high prices may be found to be superfluous when a cycle of low prices is experienced?—Yes. I think it is very desirable that India should be able to

contract its currency when prices fall, or when, for any other reason, the currency becomes redundant. I think you will remember that certainly from 1898, and I think from an earlier period, the principle has always been recognised that the great advantage of our currency system that we have set up is that it does enable such a contraction of the currency to be effected.

970 You have based your estimates with regard to the reserve on the events of 1907-8, is it altogether safe to rely on those estimates in view of all these different developments that I have mentioned to you?—No. As I have said to you already, I should take the experience of that period as a very valuable foundation, and then work out, so far as one can, what allowance has to be made for changed conditions, but I would not, as so many writers on the subject in India have done, disregard the one solid and valuable piece of experience that we do possess.

971 But you look forward to a time when the profits on coinage or a portion of them will be available for capital expenditure on railways?—A portion of them I should say.

972 Would there not be a danger of coinage being then undertaken for the sake of the profits that would be available for such expenditure without regard to the purely currency position?—No, I do not think so. I think the Government of India are so conscious of their enormous responsibilities in respect of the currency, that they would never be so foolish as to coin beyond what seemed to be required, because if they did so sooner or later they would have to pay the retribution, and might have to pay it in a very unpleasant form.

973 I understood you to say yesterday that, when you remarked that you would be able to show how the purchase of silver is regulated, you had in view the arrangements laid down by the Secretary of State in his despatch of 18th February 1910, Appendix V, page 185?—Yes.

974 So far as I understand the position, there is nothing provided there as to the method by which the desired stock of rupees on a given date is to be obtained. Is it the case that when silver coinage has to be undertaken it is carried out either by buying silver with gold taken from the paper currency reserve or by selling council bills?—There are various ways of paying for silver. The simplest way is to pay from the India Office balances, whatever they may happen to be. That was adopted, as I dare say you know, in 1912 when we began with very large balances. We bought seven million pounds' worth of silver, and we very naturally used a part of our large balances to pay for the silver. We then sent it to India where it was placed for the most part in the paper currency reserve, and notes were issued to the Government of India against it. That was really a transfer of balances from England to India. That, I should say, is the normal method of paying for silver. When the Secretary of State's balances are not so high, there are other methods that might be adopted. One, which I thought very clumsy, which was adopted years ago, was to have boxes of sovereigns sent home from India to England. Another method which now takes its place is to withdraw from the paper currency chest in India the amount required to pay for silver against replenishments of the paper currency reserve in other forms. Those, I think, you may take to be the two methods—either payment from general balances or from the paper currency reserve.

975 When you take gold from the paper currency reserve to buy silver in order to coin rupees, that is not an addition to the total currency, is it?—No.

976 You simply substitute the silver for the gold that you take out?—That is quite right.

977 Therefore there is no addition to the currency?—That is so.

978 But when you utilise council bills to get money to buy silver and you buy silver with the money and coin it, that is an addition to the total currency, is it not?—It is an addition in the first place to the balances held by the Government of India.

979 In London?—No, in India. Just let me go through this, I did it before, but it is very important,

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The Secretary of State has so much money in London which he has drawn from India, then he spends a certain sum of it and sends out silver to the Government of India, which they coin and put into the paper currency reserve. Then against it the Head Commissioner of Paper Currency issues notes to the Government of India so that the gross circulation of notes is for the time increased, but the extra notes are held by the Government, and it is a matter of experience whether those notes or the rupees against them go into circulation, or whether they are held up in the Government reserve. So far as they are held up, as they may be and as they were on the 31st March 1913, in the Government reserves, they certainly do not affect the active circulation.

980 I am afraid I do not follow that. We are talking about council bills being drawn in London for the purpose of buying silver for coinage purposes. Last year, for example, you drew council bills against the paper currency reserve, I understand, for the purpose of getting money to buy silver with?—I am always anxious not to overstate differences of detail, and not to delay you over such matters, but perhaps I was wrong in not questioning the opening words of your question. One did not sell council bills in order to produce so much money and to buy silver with the money so produced. The Secretary of State sells council bills so many per week according to trade requirements and according to his own estimated requirements, and so on, but he conducts what one may call general sales, not sales for specific objects. So that it is more correct to say, as I put it, that if the silver for the extra rupees is not bought with gold taken from the paper currency reserve, then it is bought from the Secretary of State's general balances. I put it that way, which is, if I may say so, the most correct way. You put it slightly differently as though council bills were sold to produce the money. I thought the difference between us was so small that it was not worth correcting, but perhaps it is more important than I realised.

981 (Mr Keynes) Will you put it this way—that when more silver is coined against council bills, the Government of India's capacity to cash council bills is increased, and when they take advantage of that capacity then the circulation of rupees is increased?—Yes, that is perfectly correct, but whether it entirely answers Sir James Begbie's question I do not know. I preferred, because I thought it helped Sir James more, to put it in this way—in a negative form. Supposing at a certain time the Secretary of State has increased the gross circulation of currency notes by sending out silver in the way I describe, and if then there is no demand for the money represented by the additional notes held by the Government of India, then what has been increased is not the active circulation, but only what you may call the stagnant part of the circulation.

982 (Sir James Begbie) The total currency, whether in reserves or in actual circulation, has been increased?—Yes. I am anxious to insist on this, that when there is no actual public demand for the extra rupees or the notes issued against them, then it is the stagnant part of the circulation, that is to say, the amount in the reserve treasuries and so on, that is increased, so there is no danger of what is popularly called inflation.

983 But the total currency is increased, whether in reserves or in actual circulation?—Yes, it is.

984 Take the case of last year, I allude to the time before the decision was come to to buy silver. Immediately before that time very large amounts of gold were held in India?—Yes.

985 The currency reserves were overflowing with gold coins?—Yes.

986 And the silver reserves had fallen?—Yes.

987 Then came this decision to add to the coinage, why was the decision made to add to the coinage instead of substituting silver for part of the gold held?—Where could you have got the silver from?

988 You could have used the gold you had to buy the silver?—I can assure you that that is not so. At the time of active demand for currency, what happens

to the unfortunate Government of India is that the bankers rush into the currency offices and other offices with enormous amounts in sovereigns and say "In accordance with the notifications issued on the recommendation of the Herschell Committee we demand that for every sovereign you shall give us 15 rupees." The Government of India—and I have heard that other Governments with similar currency systems have the same trouble—is very hard pressed sometimes to provide enough rupees for the public, in response to its insistent demand for rupees against gold. If at a time like that you say, Why did not the Government give out its gold and get in rupees from the public, the answer is that the public wants exactly the opposite thing done, the public clamours for rupees and forces gold on the Government.

989 As I understand the position, at the early part of last year the rupee reserves had fallen to what you considered a low point, and it was necessary to replenish the silver portion?—Yes. May I just interpolate that it had fallen to a low point as far as I recollect, because the public had forced gold on the Government and taken rupees instead?

990 If gold had come in in such quantities and depleted the silver reserves, should not the gold which came in have been used to buy silver?—I see no advantage in that. The chief effect of what was done was that the Secretary of State's balances were reduced, and the Government of India's balances were increased, which I think was a good thing, because, other things being equal, I am sure you would agree that it is better to increase the Government of India's balances at the expense of those held in this country. Except for that, and for a certain saving through not transmitting the sovereigns which, under your scheme, would have been transmitted, I do not think that there is any material difference between the method that was actually adopted and what you suggest.

991 The difference, I think, is that in the case I suggest there would have been no addition to the total currency, but in the way that the operation was carried out, by the sale of council bills, there was an actual addition to the total currency?—I will assume that the stagnant part of the currency—you will forgive me for insisting on that—

992 I do not wish to stop you in any way, but I recognise that the reserves and the actual circulation are one so far as the total currency is concerned?—If your method (if I may call it your method, just for brevity) had been carried out, the difference would have been, first, that India would have had less gold in her reserves, which would have been, I think a net disadvantage, secondly, that the Secretary of State would have had a very much larger balance at the end of the year than he actually did have, and that, I think, many people would consider also to be a disadvantage.

993 Is that so? I thought that council bills were drawn, to a certain extent any way, for the purpose of providing money to buy silver with. Is it the case that the silver purchases came out of the Secretary of State's balances?—The silver was paid for out of the general balances. I am very anxious to insist on that, because I am not sure whether I made it quite clear that there is no specific drawing of bills for a particular object.

994 Were not the council bills sold against the paper currency reserve last year?—I have not my first memorandum (Appendix I) here, but I may say that what happens is that occasionally out of the total proceeds of council bills so much is set aside into the paper currency reserve merely to replenish the balances of the Government of India. I do not know if you know that system. Shall I explain to you what happens? Supposing that in a certain year the Government of India, out of its Treasury balances, can meet 20 millions of bills and transfers, and does so, then, if in the last month of the year there is a trade demand, the Secretary of State, wisely or unwisely—in my opinion wisely—meets it and sells perhaps another three million pounds worth of telegraphic transfers and bills. The Government of India, on the hypothesis I have taken, have not the means in their Treasury of meeting

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those bills, so the Secretary of State would transfer the proceeds of the bills into what we call, in our official language, his paper currency chest in London. Against that, the Head Commissioner of Paper Currency would issue to the Government of India 4½ crores of notes, and these notes would be used to meet these bills, at any rate they would strengthen the general resources of the Government of India so as to enable them to meet these bills. That is what we mean when we speak of drawing against the paper currency reserve, and I am afraid we have misled you by causing you to think that certain specific bills are drawn against the paper currency reserve.

995 In the statement issued by the Government it is put down that seven millions odd was drawn against the paper currency reserve?—That is a brief phrase which is capable of being misunderstood. What it is really intended to convey is that of the total bills that were sold the proceeds of a certain amount of them were used in order to enable the transfer of sovereigns to the paper currency chest to be made in London.

996 I think that the statements I have seen did not provide for any credits to the paper currency chest in London?—Perhaps I might ask Mr Gillan. I do not understand that the transaction can be other than what I have described.

997 (Mr Gillan) It must have been paid into the currency reserve in London?—(Witness) Sir James Begbie thinks it is not so. I think that probably what has happened has been that some brief and technical phrase has been used which has given rise to misunderstanding. I would like to make complete the information I was endeavouring to give to you, Sir James. Sometimes, when bills have been sold, the proceeds are used to buy securities, like an investment for the paper currency reserve.

998 (Sir James Begbie) I think it was stated to be for coinage?—I think what was intended to be conveyed is what both Mr Gillan and I understand, and I cannot conceive any other meaning or any other operation.

999 When council bills are drawn, there is nothing to distinguish bills drawn against the Treasury balances from bills drawn against the paper currency reserve, is there?—No.

1000 Would that not be desirable, in your opinion?—I do not know. I do not think there would be any necessary advantage in it from the point of view of the purchaser of the bill. What he wants is a bill, pure and simple, and what the Secretary of State and the Government of India want to do, is from time to time to appropriate the proceeds of bills and say, so much shall be added to the general Treasury balances, and so much shall be added to the paper currency reserve so as to ease the Government of India. May I just illustrate it? It is rather important as you have raised it. I want to illustrate the convenience of making these appropriations in round sums. I read out yesterday, in answer to a question of the Chairman, a summary of some telegraphic correspondence relating to an incident where it was suggested that the interests of India had been subordinated to the interests of the London money market.\* If you remember, the correspondence ran somewhat in this way. The Government of India say, "Please transfer half a million to-morrow or a few days hence to the paper currency reserve." The Secretary of State says, "I will if it is necessary," and finally the thing is done. That kind of transaction, making the transfers or appropriation in round sums of half a million or a million, is incomparably more convenient to the Secretary of State and to the Government of India than selling these bills one by one specially appropriated to particular funds, or specially payable from particular funds. A further difficulty in the way of your proposal is that a Bombay bill is, as you know, payable at the Bank of Bombay, and all that one can instruct the Bank of Bombay to do, I think, is to meet the bill from the general balances of the Government which are lodged at that bank.

1001 Am I to understand that when you require to buy silver for coinage purposes, it is not material whether you use the gold you have or whether you

draw council bills or take it out of the general balances?—I do not think there is any question of principle involved. I think that *primò facie* when the Secretary of State has large balances, and has no immediate use for them, it is better for him to use them, or some of them, to pay for any silver that may be required.

1002 Coming now to the Indian branch of the reserve, you say that for special reasons the normal amount of six crores has often been departed from, do you propose to submit particulars of the instances of departure and the reasons for it?—I have already given, though perhaps it has not been noticed, the instances of departure and practically in all important cases I have given the reason. If you will look at Appendix III, page 97, statement A, column 7, you will see that at the end of 1906, after the silver branch had been built up to 2,300,000*l.*, it suddenly dropped in the next quarter to 69,000*l.* Then if you look at column 5 of the same table you will see the explanation of that, namely, that the whole of that money and some money besides, had been taken by the Government of India as a temporary loan at 3½ per cent interest. The same thing happened, but one need not go through it in detail, in 1908, as you will see from a footnote, and it also happened in December 1909, as you will see from another footnote. I think that is the essential part of the history, that these loans were taken and repaid except that I ought to add that the repayment during 1910, 1911, and 1912 was delayed. You will see at the foot of column 7 that the normal amount of four millions was not restored until the quarter ending 31st March 1913.

1003 Do you regard the balances held in 1910, 1911, and part of 1912 as temporary withdrawals?—I think that is the way to regard them. I never like to maintain that the Secretary of State has been more consistent than he has been. Occasionally he has wavered (and he has not been the only waverer in that matter) as to the complete desirability of maintaining the Indian branch of the gold standard reserve. I do not know whether he is now completely convinced that it ought to be kept up at six crores—I think that he is, but I do not know that he would endorse the argument in favour of it that I put forward. This diminution in 1910, 1911, and 1912, I think, ought to be regarded as evidence of his period of uncertainty.

1004 Were there any special reasons for the departure from the normal amount for such a long time?—I have mentioned what one may summarise as the psychological reason, and a further reason is that there were so many rupees in the paper currency reserve that the need for increasing the stock in the gold standard reserve was *pro tanto* rather less. But perhaps the answer to what I think is your real question is that there is no evidence of deep and subtle policy in this temporary diminution. I think that is what you really wanted to know.

1005 In several places throughout these papers you lay stress on the risk of injury to Indian interests by the sale of bills in London against the paper currency reserve in India necessitating the *exporting* of gold at a time when the Secretary of State was borrowing in London, or at a time when the London market was strident, or at a time when stringency already exists and an increase of it is likely to react on trade generally, including Indian trade. This seems to be a most important point, and it appears to me to call for a detailed elucidation. Would it be convenient to give particulars of specific instances in the last four years where the influence mentioned controlled the sales of council bills?—I do not think one could give a specific instance. Generally speaking, the Secretary of State sells his bills as you know, subject to not interfering with the flow of gold to India. Then I mention in various passages of my memorandum that if he completely changed his policy and greatly reduced his sales of council bills and greatly increased thereby the flow of gold to India, probably there would be a stringency in the London money market which would affect Indian trade. But it is not difficult if not impossible, to give specific instances of what would happen in the event of a different policy being adopted.

\* See Appendix V, pp 146-7

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1006 That is not quite what I was suggesting. I would like, if possible, if we could have had figures before us, to substantiate the idea that these things were done in the interests of India and to prevent any harm being done to India?—You say these things were done. What I did was to describe the practice that is followed in the belief that India would be harmed if a different practice were followed. I am quite prepared to defend the view that that belief is well founded, but when you ask for specific instances you are asking for specific instances of the effect of a policy which has been rejected. I am very anxious to meet you in every respect, but that is my difficulty at the moment.

1007 You do not think then that you can more clearly show to us that all these things of which you tell us have been done because you considered it was in the interests of India?—Of course, that almost comes to the question of one's personal attitude towards the business that is entrusted to one. I will not speak about myself, because it would be egotistical, but I am quite sure, to speak of the members of the Council of India, who have a considerable part in this business, that their object is to seek the interests of India in these matters, and having known them all intimately for many years, I think it is a very great misfortune that some writers on our affairs have put forward the other view. I am not sorry that you put these questions, because the other view has been put forward with such extraordinary vigour which can be seen through a very thin disguise. In paragraph 37 of Appendix I you may have noticed there was a writer in "The Times" who said that the Joint Stock Banks' representatives habitually subordinated the interests of India to the interests of their banks, but that no suggestion was made against their personal integrity. I daresay you noticed that rather striking passage. Of course, you could not help noticing that if Joint Stock bankers who are paid handsome salaries to look after the interests of India, used their position in order to subordinate Indian interests to Joint Stock Bank interests, that conduct would not be consistent with personal integrity. I can only say that I have repeatedly discussed those kind of questions about council bills and so on with practically everyone who has had to deal with the financial affairs of the India Office, and my impression, indeed my firm conviction, is that the interests of India, as they have been understood by the persons concerned, using their best intelligence, have been the predominant consideration.

1008 (*Mr Gullan*) I wanted first to ask you a question or two about the coinage of silver to which Sir James Begbie has referred. I think we have got already what you wish to say, but I want to bring it to a point. The currency system of India is very frequently regarded as a manipulated or managed currency system, is it not?—Yes.

1009 And it is inferred, or I suppose it might be inferred, that the Government actually determine the amount of coinage?—That is implied in the criticisms.

1010 It would be more correct to say, would it not, that what the Government have to do is to estimate the requirements of currency?—Yes.

1011 Suppose that at any time they ran short, what would happen?—What would happen would be that they would find a difficulty in converting their currency notes. I think that would be the first result.

1012 They would have to refuse to meet demands for rupees?—Yes.

1013 Which would be a very serious matter?—Yes.

1014 On the other hand what would happen if they over-estimated and over-coined?—Then what would happen would be that superfluous rupees would be in their various reserves, but, as I was putting to Sir James Begbie in a slightly different connection, not in actual circulation. You cannot force rupees into circulation.

1015 That was my point precisely. The Government of India have no means of forcing rupees into circulation if they are not desired by the public?—Quite so.

1016 You mentioned in your replies to Sir James

Begbie just now that the question is very often put, "Why does not the Government give India a gold currency?" I want to bring that out more particularly in connection with the Fowler Report. Sir Shapurji was asking you yesterday about their recommendations with regard to the constitution of the reserve, and whether it should be in gold or in gold securities, and what I want to bring out now is a recommendation with regard to the constitution of the currency—I think we can get at that. You suggested, did you not, that there is often an indefiniteness as to what is meant by a gold currency?—Yes.

1017 I want to bring that point out and I think I can do it in this way. Supposing we begin with England, putting aside the subsidiary coinage which is not to the purpose, there is in the English system a definite obligation to meet any form of currency, whether it is notes or cheques, in gold?—Yes. It is a definite but curiously limited obligation in a sense, as the Bank of England only undertake to pay their notes at one or two centres, so that if you are at Bourne-mouth or Ramsgate and have a £5 note, you may find some little trouble in cashing it.

1018 But, subject to that limitation, what I have said is accurate?—Subject to that, but it is a considerable limitation.

1019 If you go to other countries mentioned, to the Philippines, West Africa, and so on, the limitation of the duty to give gold goes very much further, does it not, for instance, in France you have got a very large silver coinage which is an unlimited legal tender?—Quite so. The French currency system, I think, is, to all intents and purposes, the same as the Indian currency system, and they are both known by the well known designation of the lumping standard.

1020 (*Mr Keynes*) That phrase is never used of India, is it?—But surely it is applicable in exactly the same way.

1021 (*Mr Gullan*) It is not exactly the same thing. What I wanted to bring out is that you may take France, Germany, and the United States and you will find a very distinct limitation in all of them of this obligation to give gold?—That is so.

1022 So if India is half-way in the matter of currency between gold and silver it does not in any sense occupy a very special position?—Certainly not.

1023 It is in the position of the great majority of countries?—It is certainly in the position of many important countries.

1024 You do not say the great majority?—One would have to go through Denmark, Norway, and Sweden.

1025 Very well, we will leave it at that. It is really a question of England having an absolute standard?—Quite so.

1026 Now I want to refer you to the Fowler Committee. They say, in paragraph 54 of their Report, "Looking forward as we do to the effective establishment in India of a gold standard and currency based on the principles of the free inflow and outflow of gold, we recommend these measures for adoption," and they go on to say in the next paragraph, "Under an effective gold standard rupees would be token coins, subsidiary to the sovereign."

But existing conditions in India do not warrant the imposition of a limit on the amount for which they could constitute a legal tender, indeed for some time to come no such limitation can be contemplated." Then in paragraph 59 they say that a system which had been found sufficient in France and the United States was sufficient for India?—That is so.

1027 Would you agree that critics of the Government policy who appeal to the Fowler Committee and say they recommended a gold currency therefore let us have a gold currency now have either to show that conditions have changed since that report was written or to explain what exactly they mean by a gold currency?—Yes and how far what exists now in the way of a gold currency fails to conform to the ideas that can be traced in the Fowler Committee's Report as to what a gold currency meant.

\* C 8390, page 16.

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[Continued]

1028 They said at the time in paragraph 55 "Existing conditions in India do not warrant the imposition of a limit" ?—That is so

1029 Therefore, it has to be shown that the conditions as they now exist do?—When you are speaking of a gold currency you are speaking, I think, of an obligation undertaken by or imposed on the Government to give gold in exchange for rupees

1030 I want to ask you whether you do not consider that that is a condition essential to a gold currency in any full sense of the term?—You and I are, I think, at one as regards substance, but I think we should express ourselves differently I should say that a gold currency means the absence of any discouragement and the presence of a certain amount of encouragement to the use of gold for the purpose of effecting exchanges, that that exists in India and that therefore India now has, so far as it desires it, a gold currency You put it rather that a gold currency means the undertaking of an obligation by the Government to give gold in exchange for other forms of currency I think one might also say that if that is what a gold currency means, the United Kingdom does not possess it and will not possess it until it undertakes to give a sovereign in exchange for twenty shillings, which it does not now undertake to do

1031 I am not differing from you in any sense Supposing someone comes to us and says, You have not got a gold currency at present, it is for them to show what further action they require us to take, is it not?—Quite so

1032 Is there any action which suggests itself to you apart from this undertaking of a definite obligation to give gold on all occasions?—No, I cannot conceive that any action other than that really undesirable action is possible, and it is for that reason that I rather insist on the point, I hope not tediously, that India has a gold currency at the present time, so far as it wants a gold currency I am only anxious to say that that is my position and that I do not take the position which might be taken, namely, that India does not want a gold currency or that India ought to have it but has not got it I say that the nearest brief proposition that you can lay down consistently with the truth is that she has got it Shall I be interrupting you if I put in one figure which very greatly interests me and which bears on this subject? I noted down—and I think it may surprise some members of the Commission—that the absorption of sovereigns by the public in the 14 years from 1899–1900 to 1912–3 was 64,815,000*l.*, while the absorption of rupees during the same period was 66,750,000*l.* The reason I want to put that comparison in and at this point in your examination is to confirm what I say, that when India requires fresh currency now, judging by this period of 14 years, she requires practically half of it in gold and half of it in silver

1033 (*Mr Keynes*) Is the table from which you are taking these figures printed amongst the memoranda that we have?—The absorption of gold is shown in the statement attached to Appendix VI on page 216, the absorption of rupees is not—I have added in manuscript in my copy these figures

1034 You do not suggest that that is a measure of the amount of gold in circulation, do you?—No I am sorry to interrupt Mr Gillan in order to answer Mr Keynes's question. That of course is one of the difficulties You pour gold into the circulation, and then India may or may not use it as a circulating medium I think it is important, in considering how far the Government has done what it can to encourage gold, to note that in the last 14 years it has put in circulation, whatever may become of it, practically as much in gold as in rupees

1035 (*Mr Gillan*) Is your view with regard to the internal currency simply that the only duty of the Government is to see that people get the kind of currency that they want?—Yes

1036 And that it is not necessary for the maintenance of the parity of exchange that it should be a gold circulation?—Quite so

1037 That is a very important mistake which is sometimes made, as you recognised?—It is very important indeed

1038 Now about the external currency, the currency that is required in the adjustment of foreign trade We had some evidence yesterday about what happened in the crisis of 1907–8, is it correct to say that when the Government started this currency policy they were thinking mostly of their own requirements, that is to say, of the amounts that they have to discharge at home?—When you say "when they started this currency policy" are you thinking now of 1893?

1039 Up to 1907, say?—Do you mean when they established the present currency system?

1040 I do?—Then my answer is Quite so

1041 Did not that point of view rather colour the action of the Government when they first faced this crisis of 1907?—Their action was coloured partly by what you say and partly by the influence, which has always been a very powerful influence, of the Report of the Fowler Committee The Fowler Committee spoke in very generous terms of Mr Lindsay, who was the advocate of the policy that was followed in 1907–8, they spoke very generously of him as a contributor to the subject, but they very faintly praised his scheme of the Government undertaking to sell exchange on London at a time of adverse trade, and they spoke with equally faint interest or praise I think, of a similar scheme that was put forward by Mr Henry Raphael So that in 1907–8 when we did sell some sterling exchange we were not only departing from the previous ideas of the Government, as you mentioned, but also from the ideas that bulked very large in the Fowler Report—it was a new departure

1042 It came into force by stress of circumstances, the Government recognising that they must maintain exchange, not only in their own interest but in the interest of the trade of the country generally, would you say that?—I would put it a little more generously and say that the Government had the wisdom to perceive that it was a wise course to take But I think it comes to the same thing

1043 Sir Shapurji said yesterday with regard to this point, that the Government had never undertaken any absolute obligation to meet a future crisis in the same way?—That is so

1044 If our reserves were exhausted, if we failed to meet a crisis, then the exchange might drop, not as you said yesterday by  $\frac{1}{4}$  or  $\frac{1}{2}$  below 1*s* 4*d.*, but we will say to 1*s* or any point short of the bullion value of the rupee?—What you say opens a very large question The particular points I want to mention are first of all as regards the possibility of a fall in exchange and the point to which exchange might fall, and secondly as regards undertaking a general obligation in much wider terms than have ever been used I think that both in the utterances of those who speak with authority on this subject and in actual fact one could find much support to the view that even if we had a very bad trade year the fall in exchange would not be nearly so serious as you suggest In the remarks which Lord Courtney made before the Fowler Committee, which were very interesting remarks, and came from a man who was very eminent in these matters, the general outcome was that the 1*s* 4*d* exchange was founded on the rock, and even if you had no gold standard reserve or any special supports it would not be seriously disturbed I think that is over optimistic myself

1045 We are speaking of a crisis, you understand, not of the ordinary fluctuations of trade?—I know But supposing you had a crisis such as occurred at this time, 1907–8, with no extraneous support for exchange such as the gold standard reserve, then it is a matter of speculation how low exchange would go My own view is that it would probably not go down as low as the figure you mention That is rather an incidental remark and I wanted to make it, but if I may I will go on to my other remark now I recognise—I am not sure whether the Secretary of State in Council and the Government of India would do so equally—that a currency system like ours tends to evolve in the direction of the undertaking by the Government of more obligations than the Government of India has under-



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[Continued]

taken so far. Of course the ideal climax to a system like ours would be that the Government should undertake whenever exchange fell below a certain point to sell exchange on London at a fixed price, and I can see great advantages in it. Provided it is done at the right time but not immediately, I mean, provided one waits until one has a big enough reserve to enable it to be done, I do not think there will be any great danger in it. I think one might look forward to it as some thing to be done as the crown and consummation of the system.

1046 I have only one or two questions that I wish to put about the paper currency reserve, which I believe is a subject that will be dealt with more particularly by Mr Newmarch?—Yes

1047 What I wanted to get from you is the place of the paper currency reserve in the general scheme of Indian currency. The idea of the paper currency reserve in India is to a certain extent that 14 crores, I think, are issued against securities, and after that stage every note must be covered by gold or silver coin?—Yes

1048 There is no provision in the system for any sort of elasticity?—No

1049 None at all?—Except that you may regard this as providing elasticity—that the circulation of notes can be suddenly increased in India by an addition of gold in England to the Secretary of State's portion of the paper currency reserve. There is, therefore, a little elasticity.

1050 At the same time the requirements in India for an elastic currency are very marked?—Very

1051 That is owing to the seasonal variation?—Yes

1052 Do you think it would be worth while considering some alternative system of the paper currency reserve in India?—If you will not unduly shock commercial opinion in India I think it would be an enormous improvement if arrangements were made by which additional notes could be issued at suitable times especially in the busy season, either uncovered altogether, or what I should prefer because it would look better against security that can suitably be held for a very short time. Supposing there were first class bills which became due to be paid off three or four months after the date on which they were received, then by putting such securities into the paper currency reserve and issuing notes against them, there would be a possibility of elasticity without any risk worth considering, in fact, humanly speaking, without any risk at all, and I think trade and other interests would benefit by it. You will notice that in my Note on the Gold Standard Reserve I mention that, I think it was in paragraph 26 of Appendix III, page 95, but I am afraid I yielded to a tendency to conservatism against which I usually try to fight.

1053 I do not want to develop that further at present, I only wanted to get your general view upon it. About the reserves it is true, is it not, we must look on them generally in the aggregate?—There is a great deal to be said for that, but you can go a little too far in that direction for reasons which I was mentioning yesterday, I think, and which you doubtless remember.

1054 I do not want to go into it too much. The point I was leading up to is this: you have got in paragraph 4 of letter from India No 89, dated 1st April 1909 which you will find in Appendix V, page 169, a statement of the reserves amounting altogether apparently at the beginning of the crisis of 1907 to about 24½ millions, and I wish to ask you what are the annual figures at the present time? You have got about 20 millions in the gold standard reserve, have you not?—I will give you the figures as best I can, and then I am sure you will allow me to correct them in the proof. For the gold standard reserve you will find the correct figure in Statement B of Appendix III, page 98. It is not quite so high as you mention, it is 18½ millions. The currency gold in England is a little more than 6 millions, and the Government gold held in India would be at the present moment a little under 18 millions.

1055 I thought it was a little more, but I did not quite know. What have we altogether?—Allowing for errors of memory that would be about 42½ millions.

1056 Then to that extent we are in a stronger position to meet any future crisis than we were in 1907?—Enormously.

1057 I do not know whether, with reference to these figures, you would like to add anything to what you have already said about the amount to be held in the gold standard reserve or with regard to these investments in securities?—There is one obvious remark—I am not sure that it would be agreed to by everyone, but I think it is worth making—that the best system if practicable of measuring the amount required for the gold standard reserve is that one should make it contingent to some extent on the other sterling resources to which you have just drawn attention. There are advantages in considering it in isolation. But on the whole, I think, if there is not too great a sacrifice of simplicity, it is better to have as one's working rule that the gold sterling assets in the paper currency department, plus the corresponding assets of the gold standard reserve, should be of a certain amount allowing for variations between the various items making up the total. That is the chief remark I should like to make. The other is of no very great importance, but it supplements what you were saying. You not only showed that with regard to the amounts we are in a much stronger position than we were, but I should like to add that as regards the form in which our invested portion is held there is an advantage, a very great one, if you compare the investments before 1907 with the investments now held, and of course there is more gold in the gold standard reserve, and there is some money that is held practically at call.

1058 We are familiar with the criticisms to which you referred, I think, that Indian interests are very often subordinated to the interests of Lombard Street, but it is the fact, is it not, that to a very large extent those interests are the same?—Yes

1059 That is an argument on which stress has frequently been laid—that India cannot do anything to disturb the London money market without injuring itself?—I am always anxious not to insist on that too much. I feel that occasionally the interests of the London money market and the interests of India do not coincide. I would rather say that it is the duty of the India Office to see that Indian interests are considered as against London interests, when there is not an absolute coincidence—I prefer that—rather than to put up the comfortable proposition that there is a providential coincidence of interests on all occasions.

1060 There very often is a coincidence?—Yes

1061 Or rather the interests of India very frequently depend in a very marked degree on the state of the London money market?—Yes

1062 For instance, at present we are faced with the difficulty of raising money for our railways?—I am entirely in agreement with you, but I was anxious that one should not appear to overstate it if I may say so.

1063 It is a criticism, is it not, that all this gold is taken out to India and is locked up there in the Government coffers?—Yes

1064 The Fowler Committee in the same paragraph that I have referred to speak about securing not only the free inflow but the free outflow of gold from India?—Yes

1065 It is objected that while more gold goes into India than is really required or used, it does not come out?—I have seen that objection.

1066 I want to know what you think about that objection?—I think that there is very little substance in it. If we sold our council bills in a very different way from that in which we do sell them I have no doubt that a great deal of gold would go to India and would remain there for a time, and then would come back as indeed was the custom some years ago, that is to say, if you look at the history of our Treasury transactions between 1899 and about 1905 you will see there was a continual inflow and outflow of gold—all very wasteful and doing no good to anyone.

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[Continued]

1067 When you say continual do you mean continuous, would it not be seasonal?—It would be seasonal. When I said continual I meant that every year, or perhaps two or three times a year, there would be large shipments home from India of gold which had been travelling into India week by week at a certain period of the year. Now, what we do or what we try to do, and I think fairly successfully, is to see that India has, as a rule, as much gold as the people require. When there is an opportunity of selling bills as a substitute for the import of unnecessary gold, we try to sell such bills so that the money may be held by the Secretary of State in London for the purposes of India.

1068 In any case this gold which is now held by the Government in India would in all probability come out on the occurrence of the next scarcity?—Did you say that which is held by the Government?

1069 Yes?—I suppose so.

1070 I do not know that you can expect it to come out of India so long as the exchange is in favour of India?—I thought you meant come out of the reserves into general circulation.

1071 Either that or out of the country?—Of course that is one of the odd problems about gold in India. You noticed what I mentioned in paragraph 9 D (b) of Appendix III (page 90), that in that last great crisis the Government lost out of its reserves 4 millions of sovereigns, of which 94 per cent apparently remained in India and only 6 per cent was exported. It is quite possible that in the next crisis the Government gold may merely disappear into hoards or into internal circulation in India and may not be sent home to England, I do not know that anyone has any right to complain of that.

1072 The Government can send home gold themselves?—If the Government adopted that change of policy it would be a very striking departure from what they adopted in 1907.

1073 Do you think anyone could expect the gold to come out of India in the present conditions, as long as exchange is in favour of India?—No.

1074 (Lord Kilbucken) Is it not sometimes assumed or implied that there is a necessary and natural connection between the profit made by the Government of India on the coinage of rupees and the amount at which the gold standard reserve figures?—Yes. For the moment, of course, the gold standard reserve consists of the accumulated profit, but I understand your point to be that if after certain amounts have been reached for the gold standard reserve further rupees were coined, it would not be necessary to add the additional profit because we might have reached a point of safety.

1075 You do not think that the number of rupees coined ought to be the measure of the amount kept in the gold standard reserve, do you?—No, I certainly do not.

1076 I understand you to say that it is possible that the profit on the coinage of rupees may supply more than is wanted to form an adequate reserve?—Yes. I think that is the view very generally held by anyone who has examined the figures.

1077 At certain times have the profits on the coinage of silver been diverted to the paper currency reserve and to the supply of rolling stock?—Not to the paper currency reserve but to the Indian branch of the gold standard reserve.

1078 At any rate it has been diverted to other purposes?—Yes.

1079 Do you consider that at the time that was done there was nevertheless an adequate amount left in the gold standard reserve?—Yes, and fortunately it does not depend on my opinion—events proved it. I held that opinion when it was about to be done, and I was fortunate enough to find that when it had been done events confirmed my opinion.

1080 I believe I am right in saying that the report of such a Committee as the one presided over by Sir Henry Fowler has no authority or binding effect whatsoever upon this Office or upon the Government of India, except in so far as it may be accepted and acted on by the Secretary of State in Council?—Quite so.

1081 If that is so, I suppose it follows that the Secretary of State acting on behalf of the Government may accept the recommendations of a Committee and yet may be perfectly justified in changing his policy and taking a different course after further experience?—Yes, it is his duty.

1082 (Sir Shapurji Bomanji) Supposing you took out one million sterling from the paper currency reserve here for the support of exchange, the Government of India would put a crore and a half in the currency reserve in India against that, would it not?—Yes.

1083 So the proportion is never broken and therefore the statute is never broken?—Quite so.

1084 So the reply to Sir James Begbie's question about the Secretary of State breaking the statute is that the statute is never broken, for whatever the amount which you take out from the currency reserve for the support of exchange so many rupees are put into the Indian Treasury into the currency?—I am much obliged to you for bringing out the point, but I do not think Sir James Begbie raised any doubts about it.

1085 When the Secretary of State bought bills at 1s 3½d the Secretary of State made a profit on buying at a lower rate than he sold. It is something like selling a sovereign for francs, is it not, when you get 25 1½ francs?—Yes.

1086 There you are paying a much higher price than the gold contained in the 25 1½ francs, because the commission on exchange and the transport charges are included?—I see your point. When the operation of restoring the reserve was going on the Secretary of State was making an exchange profit as compared with the rate at which the bills on London had been sold.

1087 That is it, it is just like selling rupees on Calcutta at 1½th discount as the Government charges?—It is in fact an ordinary business operation.

1088 That is not breaking a law and it is not selling at a lower rate than the market rate?—No.

1089 (Mr Keynes) Yesterday you gave about 30 millions as the proper figure for the sterling reserves to reach?—The sterling reserves to be held in London.

1090 In your opinion has the time yet come for the Government to enter into a definite undertaking to maintain exchange within certain prescribed limits of fluctuation?—I should say in my opinion, and I am very anxious not to commit anyone beyond that, the time is approaching but it has not yet come. I think if I were an autocrat in these matters I should wait until the reserves have got nearer to the amount that is considered suitable. Supposing my figure of 30 millions were to find acceptance I do not say one need wait until the 30 millions have been reached, but it would be well to wait until one is nearer 30 millions than we are now.

1091 Anyhow, when the 30 millions have been reached, then you think there would be no objection to the Secretary of State entering into an undertaking to maintain exchange within certain limits?—As I say it is very important that I should speak only for myself, but speaking for myself I think that that should be done. I may say that I am, as it were, deeply committed in the matter, because the Colonial Secretary was good enough to ask me to join the West Africa Currency Committee, which in a way dealt with important questions and on which we recommended, and I think the Government is carrying out, a similar policy for West Africa, that is to say, the obligation to sell exchange on London is unlimited.

1092 You mentioned a few minutes ago that the Government have now got 18 millions in India in gold. But if they were to export 5 or 7 millions of that to London they would then already have the 30 millions in London?—That is so.

1093 So if they were to take that step they would then be in a position to enter into the undertaking immediately?—That is so. I had not thought of it for the moment because it struck me there would be some dismay in some circles in India if that export on a large scale were to take place. But I can see advantages in it, I mean, if my view were endorsed.

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[Continued

by the Secretary of State, it would certainly put the Indian currency system on a very firm foundation, it would greatly improve it

1094 Do you think it is arguable, therefore, that it might be a good policy to bring home from India 5 to 8 millions of gold for that use?—If it were intended to use it for this particular purpose, to take this very great forward step in our currency system, I certainly think that is arguable

1095 One further point connected with that, though of much less importance. If, when the next crisis comes, the Government has still that 18 millions in India in gold, would it be a wise policy for the Government to export part of their gold to London themselves?—The Government ought, if it has a very large sum at the beginning of the crisis, which is, perhaps, not very probable, because crises come in a very slow and insidious way—if it has a very large sum at the beginning of the next crisis, it ought either to export it itself or, I think, to take special steps to secure that a considerable portion of it at least is used for export. On the last occasion, the crisis of 1908, I am afraid that the Government of India temporarily reversed—they probably did not realise they were doing it—for the time, the policy that the Fowler Committee had recommended. The Fowler Committee said the chief use of a gold reserve—I think the Chairman quoted it yesterday—is to be exported at certain times, and the Government of India took the view that the chief use of a gold reserve was to keep up the internal circulation of gold, and that its use for export ought to be restricted in order to secure that the internal circulation was kept up. I think that that policy ought not to be repeated, but that the exact measures for reversing it and the exact extent to which each measure should be taken would want considering

1096 (Chairman) I understand that the primary and main object of the gold standard reserve is to maintain the exchange?—Yes, to prevent exchange from falling

1097 And that, in your opinion, the recommendations of the Fowler Committee, when relating to the gold standard reserve, have been in all substantial particulars carried forward?—Yes. Of course the recommendations were very sketchy and incomplete owing to the circumstances which then existed

1098 In particular to hold the main portion of the reserve in London in readily realisable securities does, in your opinion, fulfil the functions of the Fowler Committee, though they spoke of holding the reserve in gold?—Yes

1099 Your view is that those securities are as good as gold for your purpose?—Yes, and that the Fowler Committee, when they adopted that paragraph in their report, meant "gold" to be used in the wider sense \*

1100 (Sir Robert Chalmers) Not silver, in fact?—Quite so

1101 (Chairman) It comes to this, that these securities are readily convertible into gold at any moment?—Yes

1102 And that is why they are as good as actual metallic gold?—Yes, they are readily convertible—I am sorry always to put in this point—into sterling money. I made the remark for this reason someone has said—I do not know if it was a member of the Commission—that if you want to sell your Consols or your Treasury bills and take the proceeds in sovereigns and take them away it would be a very difficult operation to carry out at this moment. I quite agree with that remark. But of course if one had to use the gold standard reserve, one would not need to take the money in sovereigns

1103 When you get to the bottom of this transaction, does it not in fact rest upon somebody else keeping actual gold if you do not keep it yourself?—Certainly I do not wish to overstate the difference between taking the proceeds of one's securities in banker's money and in gold respectively, but also I wish to mention that there is a difference

1104 Do you agree that it is only safe for you to hold a large proportion of the gold standard reserve in securities instead of in gold itself on the assump-

tion that somebody else is holding large stocks of gold so that gold will be readily available if it is required?—Yes, or that sterling banker's money will be available

1105 What exactly do you mean by sterling banker's money?—I hope I do not insist too much on the difference, but it does seem to me important. When a large payment has to be made from India to this country or to Europe generally (because Sir James was pointing out that such payments may have to be made to Germany or France in liquidation of an adverse balance of trade), the Government of India would offer to sell exchange on London to those people who have to make the payments and would realise its securities and would pay, say to the National Bank of India or to the Hong Kong and Shanghai Bank, to one a cheque for 100,000l, to another a cheque for 300,000l, and that money would go ultimately to pay the Manchester cotton spinner who had exported goods to India, and to satisfy whose requirements the whole of these operations were being carried out. It is important to remember that the Manchester cotton spinner does not want so many hundred thousand golden sovereigns. What he wants is to see at his bank, perhaps at the Bank of England itself, a figure with a suitable number of noughts after it standing to his credit

1106 That is to say, as long as there is credit you hold that you do not need gold?—You say "credit", I hope I am not obstinate, but I think that "bankers' money" is the expression, because when one mentions credit it implies that there is some borrowing involved, that someone is lending someone something. Having a big amount to your credit in your bank does not involve credit

1107 (Mr Keynes) Are you not lending to your bank?—Yes, in that sense there is credit, but I was anxious to avoid certain of the connotations of the word "credit" which are not really relevant

1108 (Chairman) I want now to go to the question of the coinage of gold in India. You have handed in a short note upon the subject which we may include with your evidence, I think?—Yes (see Appendix VI, page 212)

1109 We have also had circulated to us a return moved for by Mr Touche in the House of Commons and presented to that House, dated the 31st January 1913 (495)?—Yes

1110 The views of the Government of India are, I think, set forth in their despatch No 59, dated 16th May 1912, which appears on page 57 of Mr Touche's Return?—Yes

1111 At the present time both gold and silver are, I take it, established as legal currency in India?—Yes, and without limit of amounts

1112 How would you describe the Indian system? We have touched upon that on two or three occasions, but I would like to hear your description of what the Indian system now is?—We had a few words about it earlier in the day, and I applied to it the well-known phrase of the humping standard, because I thought that that phrase properly applies to any currency system in which two metals are full legal tender, when I say full legal tender, I mean legal tender without limit of amount, without the two being convertible one into the other by statute. Whether I have applied the right designation to it or not, that is the position in India, sovereigns and rupees as you see, are full legal tender, and the public has a right definitely secured, though not a legally established right, to get rupees in exchange for sovereigns at a certain fixed rate, but there has been no undertaking to give sovereigns in exchange for rupees. The system is supported, as you know, by the action taken by the Government in the past and the expectation as to the Government's future action when support is needed

1113 Is the result of the working of the system, as you have described it, that a parity of exchange is preserved with gold-using countries, but that a similar parity of metals is not preserved in the internal economy of the country?—Between India and gold-using countries a parity is maintained, and there is ordinarily a very close parity between rupees and sovereigns actually in India. The rupee cannot go

\* C 9390, paragraph 60, page 18.

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[Continued

appreciably above one-fifteenth of a sovereign, because anyone who presents sovereigns can get 15 rupees for each of them. I do not think that it is possible whilst international exchange with gold-standard countries is maintained that the rupee should go materially below one-fifteenth of a sovereign, but there is no special machinery by which the holder of the rupee can get sovereigns, except when it is convenient to the Government to let him have them, that is to say, in effect, he can get them when the Government has them, but the Government does not undertake to get a stock of them in order to supply his demands.

1114 Now I ask you to look at that despatch, to which I have alluded, of the Government of India, No 59, on page 57 of Mr Touche's Return (H C 495 of 1913). In paragraph 3 the Government of India say, "It is, we think, an indisputable fact that the establishment of a gold currency was regarded as the logical and natural sequence of the closing of the mints to silver, and as the necessary accompaniment of the establishment of a gold standard." Do you agree with that statement of fact, in the first place?—Yes. I think that the ideas prevailing in the minds of those who recommended the establishment of the present system include the use of gold as currency.

1115 Do you yourself think that it is a logical and natural sequence of the closing of the mints that there should be a gold currency established?—No. I think it is convenient, India being placed as it is and the tastes of the people of India for the use of gold being what they are, that gold should circulate as actual currency, but, as you know, there are some countries which have a well-established gold standard which do not use gold for currency purposes. I noticed that one important Canadian bank manager developed that very fully before a recent Canadian Committee. It was familiar to me, because the late Sir Edward Clouston put it very strongly before the Fowler Committee in 1898. Canada, as everyone knows, is a gold standard country, and it has a well-established gold standard but the use of gold as currency there is extremely infrequent, at least so I am assured, but I have never been there.

1116 I think you are referring to some evidence given by Sir Edmund Walker, the President of the Canadian Bank of Commerce before the Banking and Commerce Committee of the Canadian House of Commons?—Yes.

1117 I have that evidence before me.\* He was asked, "Do you think the public will not receive gold from the banks?" And he replied, "Oh, no, I do not say that, but it is not the kind of circulation that people want, and it is a very wasteful kind of circulation." (Q) It obtains in all great countries in the world?—(A) It does not obtain in all great countries in the world, only in Great Britain. (Q) And in Germany and in France?—(A) Not to any great extent. Do you agree with that?—I cannot speak with any precision about the practice in France and Germany. It is a matter of common knowledge that in Italy, which has now a well-established gold standard, the use of gold is extremely infrequent and the habitual currency is notes.

1118 I gather that one reason put forward by the Indian Government for desiring the coinage of gold is the belief that it will increase the amount of gold in India?—No, I think they guard themselves against that. I think they say that it would not bring more gold to India. I think perhaps what was in their mind was this—that they thought it would increase the amount of coined gold in India by inducing the owners of bullion and ornaments to bring them to the gold mint and have them coined into sovereigns.

1119 Do they not go a little further than that, and suggest that the amount of gold in India will be increased, because there will be more gold in circulation and in the hands of the people?—I am inclined to think that they do not put that point.

1120 Do you think that their inference is only that

\* Not printed (pp 43-6 of Report of Examination of Sir Edmund Walker, Kt., CVO, before the Banking and Commerce Committee of the Canadian House of Commons re Bill No 96 (Banks and Banking) April 16-17, No 40, 41-1, Ottawa Government Printing Bureau, 1913)

gold now hoarded will take the form of coin?—Yes. May I refer to the Secretary of State's despatch, No 139, dated 18th October 1912 (page 65 of H C 495 of 1913), which summarises the views of the Government of India? It says at the end of paragraph 1, "You hold the opinion, which seems clearly correct, that it would not be likely to increase the importation of gold into India." The passage on which the Secretary of State's summary is founded is evidently paragraph 14 of the letter from the Government of India.

1121 That is the paragraph in which they say "Neither, in proposing to open a gold mint, is it our intention to induce thereby an increased flow of gold to India."?—Yes, and you see that paragraph ends with the words, "but the aggregate inflow of gold will, so far as we can see, remain unaffected."

1122 On the other hand, they are of opinion that the opening of a gold mint and the extension of gold circulation would aid in supporting exchange?—That is so.

1123 Do you share that opinion?—I do not think that it would give any material help. I think I was mentioning yesterday that I hold the view which Lord Goschen and Mill and many distinguished economists have held, that the gold which is actually in circulation is of very little use in maintaining the exchange between the country in which it is circulating and other countries.

1124 What are the advantages which you would expect to accrue, if any, to India from the opening of a gold mint there?—I think that there are very few advantages indeed. Of course you are not asking me about the advantages of the circulation of the sovereign, because that is a different matter, seeing that it is well recognised that it can circulate whether there is a mint or whether there is not. I think the advantages of a gold mint are very slight indeed, seeing that sovereigns can be imported, and are freely imported, to a very great extent. One advantage to which I do not attach very much importance is that it would be possible to coin a gold coin other than the sovereign. There have been recommendations, or rather representations, to which some weight is to be attached, that such a coin would be popular and would serve purposes that a sovereign does not serve. Sir Vithaldas Thackersey in 1911 made a speech,\* which I daresay will be brought to your notice, in which he said that a smaller coin, and an Indian coin, might be more popular. That I think is one possible advantage, more especially since his view has been supported in various quarters. I remember Mr Webb, who is a well-known writer on this subject, wrote to the Secretary of State urging that there should be a specific Indian gold coin. I imagine that he was voicing the opinion of a certain number of persons in India with whom he came in contact. I think if I could remember them, there have been others who have represented that the 10 rupee piece would be fairly popular. I believe that the Government of India thought that there would be some demand for it, so that one advantage would be the introduction of a more convenient form of coin.

1125 Is that an advantage which is dependent on the establishment of an Indian mint?—Would it not be possible to have an arrangement with the mint here that they should coin whatever gold coin India required?—Yes, that would be possible. I think the advantage I was just mentioning merges very much into the one that I was about to mention. It has been said to me by friends of mine who have some experience of Indian feeling, that certain sections of Indian feeling, perhaps a very large section, would be much gratified by the opening of a mint for the coinage of gold in India. Personally, I find it a little difficult to understand what personal gratification it would bring to any Indian to know that his country had a gold mint as well as a rupee mint, but I must take the fact as it is given to me, that some gratification, it is alleged, would be caused by the opening of such a mint.

1126 So that in your opinion the advantage would be really rather the satisfaction of sentiment than any concrete gain?—Yes.

\* See H C 157 of 1911, page 306

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1127 In paragraph 22 of that same despatch, No. 59, on page 61 of H C 495 of 1913, the Government of India, whilst disclaiming any idea that the coinage of gold in India will be a panacea for all Indian currency ills, add "Indeed we do not imagine that its influence will be greatly felt at first, but such a measure will mark a step along the path which has been authoritatively accepted as the line on which our currency policy must develop, and in time it will be of great assistance in maintaining the stability of our currency system." Can you develop that idea for me a little?—I think what the Government of India would say is that when there were many more sovereigns than at present and fewer rupees making up the total circulation in India, the danger of a fall in exchange would be less than it now is. I cannot say that the argument appears to me to be extremely convincing, because I think it overlooks the fact that the reason why the Indian exchange tends to fall under present conditions is mainly that India is a debtor country, and that from time to time, if trade goes against her, she finds a difficulty in paying her debts abroad. If she had a gold currency she might have to export her currency if the holders of it were willing to let it be exported, but if she did that there would still be the fall in exchange that there is at present. The idea that you prevent a fall in exchange by exporting your currency seems to me to have very little foundation.

1128 The great advantage of the proposal in the mind of the Indian Government is that it would increase the number of gold coins in circulation?—Yes

1129 And also increase the proportion of gold in India as compared with silver?—Yes, but the reasons for holding that opinion are not very clear or strong

1130 Apparently it is not anticipated that it will cause gold to flow into India?—No

1131 But that it will bring gold out of hoards, or out of the bullion condition into the coined condition?—Yes

1132 You have spoken on more than one occasion about the issues of gold to the public in India. In paragraph 37 (b) of Appendix III (page 90), speaking of the course of events of 1907-8, you say "It will be seen," from the tables that you print, "that the sovereigns held in Government treasuries and reserves in India decreased between September 1907 and December 1908 by 4,394,000*l.* of which 215,000*l.* represented light coin sent by the Government of India to the Secretary of State, and the remainder (4,179,000*l.*) issues to the public in India." The export on private account which you are dealing with in that paper during that period was only about 250,000*l.* Have you any theory as to what became of the rest of those sovereigns?—I imagine that they went the way of many other sovereigns, and of the gold in other forms than sovereigns that is continually being imported into India. No doubt a certain number of them may have remained in circulation, but I think that hoarding and melting were probably the destination of the majority

1133 If they were hoarded as sovereigns, it is of course possible that the expectation of the Government of India might be realised, that in times of need they would be tempted out again?—I think that the expectation of the Government of India was that they would be tempted out again, and then they would in some way serve to support the exchange value of the rupee. It is the second part of the expectation which seems to me to be a little doubtful.

1134 But if they had been melted down there would have been no advantage in having them coined, and they might just as well have gone in straight as bullion?—That is so.

1135 Is it possible to frame any reasonable expectation of what would happen if you minted more sovereigns or more gold coins in India? Is it possible to frame any sort of hypothesis as to the proportion which would be melted down?—No. I should say that if gold in India was brought to be coined into sovereigns, the presumption is that it would remain in the form of sovereigns. If a man wanted gold he would not go through the process first of all of sending the bullion to be coined, and then of melting

the coin so as to put it back into bullion. I should say that the danger is, if I may hazard a conjecture, that since the owners of bullion in India who hold it in that form do so because they prefer it in that form, they would continue to do so even if there were a mint for the coinage of gold in Bombay, and that the mint would probably do very little business

1136 Of course the same man would not at approximately the same time be bringing bullion to the mint to be coined and then melting down coin into bullion?—No

1137 But the coin that was minted from the bullion brought to the mint by one man might be melted down by another man into whose hands it shortly passed?—Yes, that is possible, and then there would be waste

1138 And there would not be that increase of coins in circulation which the Indian Government hope to see?—No, clearly not

1139 In itself do you think it is an advantage to increase the number of gold coins in circulation, provided that there are already sufficient to meet the natural desires of the public?—The difficulty of answering that question is that if there are as many as the public desire, then you cannot increase the number. If there is a public demand for sovereigns which is not fully satisfied, I think then it is an excellent thing to do what can be done to satisfy the demand

1140 I understand your governing principle is that it is the business of the Government to provide what the public desire?—Yes

1141 If they want gold coin let them have gold coin, and if they want silver let them have silver?—Yes

1142 Have you any reason to doubt that that is what happens now?—No. It is to be noticed that the public demand for sovereigns does increase very rapidly year by year, and a time might come when the demand is larger than could be satisfied from the stock at the disposal of the Government. Then it is just possible—I merely put this because I wish to be fair to every side in this controversy—that the existence of a gold mint in Bombay might enable the holder of bullion to get sovereigns by the coming of his bullion, which otherwise he might find it difficult to get.

1143 In this despatch (page 57 in H C 495 of 1913) the Government of India propose to make their gold coin a sovereign. I think I am right in saying that included in the papers are a letter from the Treasury to the India Office explaining the difficulties of that proposal, and a letter from the Secretary of State in which he seems to think it likely that the Government of India will not approve of either alternative presented by the Treasury, and in which he observes, "If both are dismissed it will remain to consider whether it is desirable to produce at one of the Indian mints a separate Indian gold coin of the denomination of, say, Rs 10." Is there any answer to that despatch which we ought to have?—The important communication from the Government of India is a telegram, dated 20th January 1913, in which they say, "As you anticipated," referring to the despatch of the Secretary of State, which you have just quoted, "we do not favour either of the alternatives offered by the Treasury. We therefore, except your offer to sanction the issue of a separate Indian gold coin of the denomination of Rs 10. We will submit our proposals as to details of the coinage in due course." Then they discuss the dates on which it would be desirable to make an announcement, and that perhaps I need not read. I ought to mention, so as to avoid misunderstanding, that that telegram was sent before it had been decided to appoint this Royal Commission. On the 24th January, 1913, the Secretary of State suggested that, before any final decision was taken, the usual procedure for eliciting public opinion in India should be followed. Again he returned to that point in a subsequent telegram, and the discussion to which those suggestions gave rise ended with a statement from the Government of India as follows, dated 10th April, 1913.—"In your telegram of 14th February we were informed that the

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" Royal Commission would inquire *inter alia* into " Indian currency administration. The possibility of " a decision being arrived at on the question of gold " coinage independently of a Commission was there " fore never anticipated by us. It is assumed generally " by the public in India that the question will be left " for the Commission to decide, and we are of opinion, " after full consideration, that this is the only possible " course now. Ample opportunities for ascertaining " the opinion of representatives of the commercial " public in India will no doubt be given to the " Commission." That telegram came as the reply to the " Secretary of State's inquiry as to what detailed " steps should be taken to elicit public opinion in " India, and you will see that in effect the Government " of India said, We will do nothing at present, we will " wait until the Royal Commission has considered the " matter.

1144 The present arrangements have secured a " stable exchange between India and other countries?— " Yes, between India and gold using countries.

1145 In that respect we have all the advantages of " a gold standard?—Yes.

1146 Those advantages have been secured without " the existence of an extensive gold currency in India?— " Yes.

1147 Some people would say, and apparently Sir " Edmund Walker, to whose evidence you alluded, would " say that the most admirable system you could have was " one in which your gold was in reserve and protected " your exchange, and was not in circulation?—Yes.

1148 And would consider that so far from its being " desirable to encourage the use of gold in circulation, it " was a very uneconomic and wasteful thing to do?— " Yes.

1149 Is that, on the whole, your view, subject " always to your governing principle, that after all " it is not a matter for Government to decide, and that " the public must have what they want?—Really, the " reiteration of that principle answers the question. I " see no disadvantage to India in the use of gold, and I " see no advantage to India except its convenience. I " understand that with the people who do not readily take " to the use of notes, as is the case with the inhabitants " of some parts of India, but not the majority of India " fortunately, the gold coin is a great convenience. Of " course I agree with the view held, I think, by most " persons who consider currency questions, that the ideal " form of currency is a note currency, but one cannot " expect India to be much ahead of England in such a " matter, and in England, as you know, notes are a very " unimportant part of the currency.

1150 (Sir Robert Chalmers) The chief part of the " currency being the cheque?—That is so.

1151 (Chairman) Of course, a cheque is very " similar to a note in some respects?—Yes.

1152 (Lord Faber) In an answer given by you to " the Chairman, you expressed the opinion, I think, that " the export of gold coin or bullion would not stop a fall " in exchange, is that your considered opinion?—It " would not prevent a fall in exchange, because it would " be brought about by a fall in exchange. So long as a " country was losing its gold by export, its exchange " would be *ex hypothesi* at or below the gold exporting " point.

1153 Would not the fact of exporting bullion, and, " therefore, not using exchange at all, tend to a jumping " up of the exchange again?—It would tend to restore " the exchange, but it would not tend, I think, to prevent " the exchange from falling to the gold exporting point. " The reason that I mentioned it is this. Everyone " knows that in India we have methods—for instance, " the sale of these bills of which you have heard so much "—for preventing exchange from falling below a certain " point, that is to say, the point at which we sell the " bills and, from what one reads in newspapers and " elsewhere, one gathers that the opinion is held that if " gold were very largely circulating in India, there would " be a more effective method of achieving the same " object, and that the exchange would necessarily be " stopped in its fall at a higher point. I wish to " mention—and that is why I made my remark—that I " do not think that those opinions are well founded.

1154 (Sir Robert Chalmers) Respecting the hypo- " thesis that there would be an Indian mint coming gold, " and gold of an Indian denomination, did you contem- " plate seigniorage, what would be your view on that " subject?—I have no very strong view about it at all. " When the sovereign was proposed, you know, it was " proposed to have no coinage charge. If you have time " to read the whole correspondence you will see that " there was a discussion with the law officers as to " whether it was possible to have in an Indian branch " mint an arrangement similar to that at the Royal " Mint, and differing from that which prevails in Aus- " tralia. After much consideration it was decided that " the Royal Mint arrangement, under which there is no " charge, was possible even in a branch mint, though " there is at present no branch mint which does not " make a charge. When the question came of a " 10 rupee gold piece instead of a sovereign, the point " regarding the charge was a new one, and Lord Crewe, " in his despatch, asked the Government of India to let " him have their views as to whether there should be a " seigniorage or not.

1155 Have you got their views?—No, we have " not got their views. I feel with regard to this, as " with regard to many other of the questions which " arise about coinage, that points which are of very " small importance are considered in some quarters to " be very important. I do not see that there is very " much importance in the question whether there should " or should not be a small seigniorage on the coinage " of a 10 rupee gold piece.

1156 It would have this effect, surely, in the " domain of ordinary finance that a seigniorage would " represent a charge covering the cost of turning bullion " into the form of coin, and therefore any operations in " the way of setting up a gold mint in India for coining " gold coins would tend to be self-supporting instead " of being an entire loss to the taxpayer?—From that " point of view the importance is clear, but I think that " the critics to whom I refer had souls above considera- " tions of loss to the taxpayer.

1157 It is generally understood, is it not, that the " cost of minting, and so forth, may be taken at about " 1½d an oz?—I think so. That corresponds to the " Australian charge fairly well.

1158 If you have got a seigniorage charge, by " export of the coins so minted you lose what you have " paid for?—Yes.

1159 And so far there would be a tendency to keep " the gold coins on which seigniorage had been charged " in the country?—Yes.

1160 Seigniorage is generally charged in all " countries, is it not?—This country, I believe, is " generous owing to the influence of the Treasury, " but other countries, I think, usually charge a " seigniorage.

1161 The general body of precedent would be in " favour of a seigniorage charge?—Yes.

1162 And that was imposed by this country under " the Coinage Act of 1870 for the branch mints in " Australia?—It was not imposed—it was allowed, and " then the permissive power was exercised.

1163 Take again the hypothesis of the Indian " gold coin, it would be of the greatest importance, " would it not, that the fineness of those Indian coins " should be the same as the sovereign, 111ths, so that " they could exchange by weight?—I should think so. " Of course there are differences of fineness between " Indian and English token coins, but then the same " considerations do not apply.

1164 If you have no sovereign coined in India the " ordinary method of settling international balances " would be by bullion, would it not?—No. You ask, if " you have no sovereign coined in India?

1165 Is not bullion the normal international " medium of exchange, is not coin only a substitute for " that?—It is a very usual substitute, and a very con- " venient one, but the normal method, I should say, as " between India and the rest of the world, is by the use " of this machinery that the Government has set up, in " fact by the use of what, in the widest terms, one " would call credit instruments.

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1166 Do you think there is any popular demand in India for a special gold coin of its own, do you think there is any national sentiment in that direction?—Even those who are on the spot in India are certainly liable to make mistakes on the subject, as I should like to illustrate in a moment, so that I, not being there, cannot give an opinion. There is a very curious illustration of the difficulty of gauging Indian sentiment in this matter. In this White Paper which was published at Mr Touche's request (H C 495 of 1913), the Government of India were very emphatic. The Secretary of State asked whether Indian opinion ought not to be ascertained. In a telegram of 18th May 1912, on page 63, the Government of India said "We have not obtained opinions of the bodies you have mentioned. Matter has been twice subject of debate in Imperial Legislative Council, and during past year has been discussed vigorously in Press, and by commercial interests in India and England, therefore do not think it is necessary to collect further opinions." Then in the same spirit they say, on page 62, paragraph 25, "Our proposal for a gold coinage has behind it the overwhelming support of Indian public opinion, the leaders of which are ready and anxious to extend the everyday use of the common coin of the Empire, and are unable to understand why India should be denied the same minting facilities as have been given to Australia and Canada." In view of all that, the Secretary of State was surprised to some extent when about two days after the publication of this book he received a telegram from the Calcutta Chamber of Commerce mentioning their pain at not having been consulted, and I think they traversed there the statement that there was behind this proposal the overwhelming support of Indian opinion, and in a meeting of the Calcutta Chamber of Commerce some views controverting this statement of the Government of India were expressed with some freedom.

1167 If there was not a national feeling, if I may so call it, in favour of a distinctive coin of Indian manufacture, would you say that on merely economic grounds there was any justification for the spending of any money on the coming of gold in India?—No. I would certainly say that in the absence of this sentiment that there is no justification for spending what would probably be about 16,000l a year at least.

1168 (Sir Ernest Cable) When the Fowler Committee recommended the institution of a mint in India, do you happen to know whether there were many sovereigns going out to India at that time?—There were very few. I think you will find somewhere in the Committee's report that they mention that when they wrote three million sovereigns I think, had gone to India. I am not sure if I have the exact figure, but at any rate it was a trivial amount compared with what has since gone.

1169 So it might be a legitimate inference from that that if they had anticipated the large sums in sovereigns that have gone out recently they might have reconsidered that recommendation?—You point has been anticipated by the Treasury. You will notice in this correspondence that was published, the Treasury said that the object which the Fowler Committee had before them seemed to have been achieved by other means which they did not anticipate.

1170 It has just come out in evidence that Canada is a case where the mint is not really wanted?—I believe opinions differ, but there are authorities who hold that it is not wanted, and that it might well be abolished.

1171 The case of Australia seems to be different for its three mints have been largely used, have they not?—I believe only a comparatively small proportion of the gold which is produced in Australia is coined, but I am not quite sure. You will have seen in some of the statements that I gave that two of the mints in Australia coin about two million sovereigns a year, and the other one about four millions.

1172 Is that entirely from local production?—Australia coins about nine million sovereigns a year, and I rather fancy that its gold production is more than that.

1173 But it is got entirely from local production?—Yes.

1174 It follows from that, does it not, that if the Mysore gold mines did not want a mint in India, that would be a powerful argument against it. Do you happen to know their views about a mint in India?—I think I read out yesterday what was stated in 1902 as to their feeling and their practice (paragraph 3 (v) of Appendix VI, page 213), and I have no reason to think that they have in any way altered. I should think generally it would be more convenient to the Mysore mine owners, when they have the unrefined gold ready, to send it to England than to dispose of it there.

1175 They would be not likely to use the mint perhaps even if it was put up?—They might or might not. It cannot make very much difference to them because they have to send the greater part of their production home, naturally, because it belongs to their shareholders. So that if they had their gold coined they would buy exchange on London, I presume, out of what was left after paying their wages bill, therefore I do not think it would matter much to them.

1176 (Sir Robert Chalmers) If there was a seigniorage it would deter them?—Yes, if there was a seigniorage on their 10-rupee piece, I suppose it would.

1177 (Mr Keynes) Are half sovereigns legal tender in India?—I think they are. I daresay you have the Coinage Act. I think that the words of it are "sovereigns and half sovereigns coined at any mint or branch mint."

1178 Is there any evidence of half sovereigns being popular?—I do not think so. I remember to have seen—I forget whether it was in an official paper or in an unofficial one—some statement which rather impressed me that they were not popular, but I am sorry to say that I cannot at the moment recollect who was the authority. I thought at the time it was a good authority, that is all I can say.

1179 The fact, therefore, that an Indian gold coin of 10 rupees would be rather smaller in face value than a sovereign, is perhaps not much reason for thinking it would be popular, or do you think it is?—No, I do not think it is much of a reason.

1180 If there was a demand for a smaller gold coin half sovereigns might have been used?—Yes.

1181 With regard to the terms of mintage, there is no seigniorage at the Royal Mint, but sovereigns are not given on demand in return for bullion, are they?—No, there is a seigniorage in time, but not in money.

1182 And the mint rather discriminates against private persons in the matter of quick delivery?—That I did not know.

1183 It is the case, anyhow, that the ordinary seller of bullion finds it worth while to sell gold to the Bank of England at 1½d an ounce less than the par value?—That is a well known difference.

1184 So that there is in effect a discount of 1½d an ounce in England normally?—Yes.

1185 Which corresponds to the seigniorage which is charged in Australia?—No.

1186 In amount?—It may be in amount.

1187 I mean simply that the price of sovereigns in terms of bullion is less than the par value by 1½d an ounce, both in Australia and in England?—I think you are assuming that there is immediate coinage in Australia. If it be the fact, and I cannot say, that besides actually imposing a charge of so much an ounce in Australia they keep the owner of bullion waiting for 60 days, or whatever it may be, then the ratio between bullion and sovereigns would be different in Australia from what it is here.

1188 It might be more than that?—Yes.

1189 If the mints in India were to charge no seigniorage, and were to grant quick delivery, they would be giving more favourable terms than can usually be obtained in England?—Yes.

1190 So that if that were the case it might be worth while for those who wished to remit gold to India to send out bullion and get it coined there, because they could get it coined more cheaply than in England?—Yes.

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1191 They might even do that if the sovereigns were ultimately intended for some other destination in the East than India?—They might. Of course the saving on account of the effective payment made in England which they would avoid by sending their bullion to India would be so small that I should scarcely think they would take so much trouble, if the destination of their sovereigns was some place outside India.

1192 If the Indian authorities were to offer rather better terms than are usually obtainable in England, that would make a great difference to the likelihood of gold being brought to them?—Quite so.

1193 Do you think it is desirable that they should get better terms than are given in England?—It had not struck me that the matter was one of great importance, and also I should say that they would not get materially better terms.

1194 I was not asking about the fact, I was asking whether you thought it would be a good thing that they should. You say it is not of any significance?—I do not think it is of any significance either in itself or on account of the difference in the terms that it is likely would take place.

1195 If there was a difference of 1*l* an ounce, do you not think that would make an appreciable difference to the amount of gold bullion sent to India for coinage?—I do not think so. I may be wrong, but I do not see that there is any great importance in it, either practically or theoretically.

1196 I understand that you take the view that the Government of India ought to take a purely passive part in the supply of currency, supplying gold and silver according as the public want it?—Approximately that is my view, I might use a slightly different adjective.

1197 Is it possible for the Government to take a purely passive view? Is it not necessarily within their discretion and power as to whether it is easy to get gold in remote parts of the country? I am thinking of such circumstances as that of the Government giving facilities outside the law for the encashment of notes when it is not inconvenient to the Government. In these circumstances it is within the power of the Government to give facilities for the encashment of notes into gold or only into rupees?—Yes.

1198 So it can make gold more or less easily obtainable?—In a sense you are putting to me the questions that I might have put to you. You began by using the word "passive," which I did not think exactly the right word, but I did not like to contest it. Now you are proving, I think, quite conclusively that it is not exactly the right word, but that the Government necessarily takes some slight share in turning the disposition of the people into one channel or another.

1199 Yes?—There I agree with you, and that was at the root of my demurring to your particular adjective—I think that we are at one.

1200 Similarly they can make notes more or less convenient, they can be at pains to make the notes popular or not?—Quite so.

1201 Within these limits, do you think that the Government would be wise to encourage the greater use of gold?—I think they ought to proceed with as much passiveness as is compatible with intelligence. Of course I, being in a very humble way an academic student of economics, like a note circulation better than a gold circulation, which is probably the case with you, but if people in India rather prefer gold, or if people in the Punjab, as you know is the case, rather prefer gold to notes, I think the Government ought not to be at any great pains to put difficulties in the way of their getting gold. I think that the Government might be at some pains to make it easy for them to get notes, or even to explain to them the advantage of notes, but it is rather by way of pushing one form of currency than by putting obstacles in the way of getting another form of currency that the Government should exercise such discretion as it does exercise.

1202 I believe it is the practice of the Government, is it not, to sell remittances at a small premium for remote parts of the country?—I do not

know if it is to remote parts, I think it is rather to big trade centres up country.

1203 Do you think it would be a good thing if the Government made such remittances freely available in terms of gold?—I like the idea of the Government saying, Money is money, if you have remittance due to you we will meet you convenience as far as possible, but we will not make separate bargains regarding gold money or note money or rupee money. That, I think, is the right position for the Government which has a currency such as India has.

1204 I do not clearly follow your position. You say that the Government would be right to popularise a note issue by making notes very convenient and by explaining their advantages, but you think it would not be right for the Government to take similar steps with regard to gold?—I say it would not be right for the Government to place obstacles in the way of the circulation of gold.

1205 That is another point. Do you think it would be unwise of them to attempt actively to popularise gold in the way in which it would be right for them actively to popularise notes?—I should like to minimise that distinction. I think really that I agree with you.

1206 I have expressed no opinion?—I think I agree with the opinion that I seem to read in your mind, but my agreement, I think, largely comes from the fact that in respect of gold I fancy there is a considerable demand for it from some parts of India, and that demand is so strong that it needs no encouragement, and that in other parts of India there is an indisposition to take it and it would be waste of trouble to try to produce a disposition to take it. I think, in fact, if I may summarise it, that the note habit is a much more teachable habit than the gold habit. It is much more, I think, a matter that can be altered by education.

1207 (*Chairman*) If you were the Indian Government you would, I understand, desire to meet the wishes of the people as far as it is conveniently possible?—Yes.

1208 Would you prefer that they should ask you for notes, or that they should ask you for gold?—That they should ask me for notes, certainly.

1209 (*Mr Keynes*) I pass on now to a different point. If 20 million sovereigns in addition to those which are used at present were to get into circulation in India in place of notes or rupees, that would be at the expense either of the gold standard reserve or of the paper currency reserve?—Yes. That is a very brief statement, and I think that it might conceivably be misunderstood, but I think I agree with you as you put it.

1210 Do you think that the effect of this change, that is to say, of 20 million more sovereigns being put in circulation and a somewhat smaller gold standard reserve or paper currency reserve would be to make the Indian currency system more or less stable than it now is?—My own view—I know it is a very controverted question—is that an addition to the gold currency at the expense of the gold standard reserve would make the exchange less stable.

1211 So that would be a strong reason against wishing the people of India to take gold rather than notes or rupees?—It would be a strong reason if the difference in stability were considerable. I do not think that now or in the immediate future, or, indeed, in the future at all, there is much instability in the Indian currency system, and especially in its foreign exchanges, so that I do not regard the matter which you are discussing as one of very great importance. I should so regard it if you had been discussing it when the gold standard reserve was 10 millions or 15 millions less than it now is.

1212 I put it in this way, therefore, that when your reserves are adequate to meet all emergencies you can then spend all your resources on having a gold currency if you like without injuring stability?—We have come back to that. I think, practically, I said that almost in those words at a much earlier period of my examination. I forget in answer to whom, but I think I did say it.



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[Continued]

1213 I put the point for this reason, the main argument usually urged against a gold currency as distinct from a gold standard is that it is uneconomical, and you would accept that, I imagine, and so would most of the advocates of a gold currency?—Yes

1214 But the advocates of a gold currency go on to say It may be more expensive, but it gives you something which is more stable, and is worth the extra expense?—Yes

1215 I understand that your opinion is, that, so far from making the position more stable, it will make it a little less stable, but if you had already got good reserves that would not be a matter of very much moment?—You have summarised my view with complete accuracy

1216 Therefore it would be an uneconomic thing to do, and would not assist stability?—Yes, but it would not matter very much

1217 It would not matter very much if stability was insured in other ways?—Yes, that is so

1218 (Sir Shapurji Broacha) There is a great sentiment for establishing a mint in India?—So it is alleged.

1219 And the Government are willing to give in to that sentiment so far as the Government of India are concerned, according to the correspondence?—Pardon me, if you are setting up a difference of opinion between the Secretary of State and the Government of India, that I do not think exists

1220 They are both the same, and I did not mean to imply that there was any difference at all on that point. Supposing they are willing to meet that sentiment and to have a mint established, what gold will go into that mint? Here 8/ 17s 10½d is the value of 1 oz of gold, is it not?—Yes

1221 8/ 17s 10½d is equal to 934½ pence or annas?—Yes

1222 If you take an ounce of gold in a solid bar to India, that ounce of gold will cost you 1 per cent for freight?—I take that from you; I do not know

1223 That would be about 9½d per ounce?—Yes

1224 Suppose that gold is sent to the mint, it will cost an additional 10 days' interest, just as it costs here?—Yes

1225 That will be equal to about 11d or 12d on the ounce of gold?—Yes

1226 That will only give you 923d when the sovereign gives the owner 934½d. Therefore, taking it from an economic point of view, is it not a waste of money to establish a mint? Will you take gold bars from this country, send them to the mint and only receive 923d per ounce, when if you take the ounce of gold into India in sovereigns you would get 934½d? No merchant or banker would do that, would he?—I should like to follow your calculations

1227 Taking the ounce in sovereigns as producing 8/ 17s 10½d that ounce will cost you 1 per cent to take it to India?—That is where I am not sure that I follow you

1228 (Chairman) Assuming Sir Shapurji's figures to be correct, do you agree with his conclusion?—No. My difficulty is that Sir Shapurji seems to allow for the cost of freight on the gold but not on the sovereigns

1229 (Sir Shapurji Broacha) You may take it from me that it will cost you 1 per cent to take an ounce of gold out there, and that will be equal to 9½d on 934½d, to which you will have to add 10 days' interest while it is at the mint. As a commercial transaction who will take that ounce of gold in bars to be coined in India and receive 923½d instead of 934½d, which he would get if he took gold which was already coined into sovereigns?—I see a difficulty there, but I do not wish to dwell much upon it.

1230 Nobody would do it as a matter of sentiment and suffer that loss, would he?—If you are going to charge your bullion with this 1 per cent for freight and insurance you ought to charge your sovereign equally

1231 The price of the sovereign in India is 15 rupees?—But ought you not to assume, to make it all square, that the bullion is in India too? Why assume that the bullion is imported into India for this purpose and bears the charge of 1 per cent?

1232 If I buy bullion and send that bullion to the mint to be coined, that bullion will cost me 15 rupees 2½ annas before I receive it in the shape of the sovereign, who would pay 15 rupees 2½ annas for a sovereign when he can buy a sovereign for 15 rupees?—Now, if I may say so, I think you have put it on the right basis, because you have eliminated the differences

1233 If it would cost 15 rupees 2½ annas to turn bullion into a sovereign, while I can buy a sovereign outside at 15 rupees, commercially no one in India would send any bullion to the mint, therefore from which country will bullion come to India for coinage?—I agree with what is evidently in your mind. I do not think bullion would go to India for coinage, and I am bound to say that the Government of India has held that view

1234 Last year 81 millions of gold went to India, 19 millions in sovereigns and 12 millions in gold bars. Those gold bars would not have gone to be coined because those gold bars would have cost about 13d, gold bars being dearer even than bullion; therefore none of that 12 millions would have gone for coinage?—I agree. The view that bullion would be converted into sovereigns to any large extent has never commended itself to me

1235 So whatever bullion comes to be coined will be either from Indian gold mines, or because some gold is brought out from the hoards?—Yes

1236 I am told that the mines in India have sold ahead to London the gold bullion, as you can see from the Governor General's letter in 1902, on page 56 of H C 495 of 1913, when the projected mint was given up\* I am not against a gold mint in India, but I say the machinery will have to be scrapped in five years. Do you know that sovereigns would be even cheaper coming from Egypt and from Australia in comparison with gold bullion coming from London?—Yes, that of course is a familiar fact to us

1237 Of course a gold mint may be erected in India for the satisfaction of sentiment, but I do not see where the gold is coming from?—That is my difficulty—how much business will the gold mint do

1238 It may be said that India prefers gold in 10-rupee pieces, but is there any data for that?—No

1239 But there are plenty of data for a sovereign?—Yes

1240 The sovereign has been coming into India merely since the mints were closed but since the British Government has been established, and they have been bought as cheaper gold?—Yes

1241 So sovereigns are more familiar than 10 rupee pieces. According to what you have placed before us out of the 19 million sovereigns which went into India last year 15 millions went into circulation, that is, into the people's pockets?—Yes

1242 If four fifths of the sovereigns that you take there are taken by the people how can you compare it in popularity with this other coin; there are no data to go upon, are there?—No, there is absolutely nothing to go upon, as you say, except prediction

1243 Then comes the difficulty which the Chairman has pointed out to you about sending out gold for the trade balance. If you send out 10-rupee pieces in gold they will be taken at the cost of bullion, and not at what they would cost to coin, so there will be another loss there?—Yes

1244 If I take five sovereigns to the Continent I have to suffer the loss in exchange?—Yes

1245. Then in addition to that the 10 rupee piece will be a different coin to any in the whole Empire. So if Mr Webb sends us a message that the Karachi chamber requires the 15 rupee sovereign and not the 10 rupees gold coin, which is the latest message, is it in any way desirable to have the 10-rupee gold coin? Nobody knows about the sentiment in favour of it, because it has never been used, only two or three people on the Legislative Council have said that it would be popular. How could they make it popular

\* The relevant part of this letter is quoted in paragraph 3 (v) of Appendix VI, to this Report, page 213.

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[Continued

when the sovereign has been popular to my knowledge—and I am a holder of 49 years' standing—and is preferred to any other coin?—The 10 rupee piece will be much cheaper to coin

1246 How do you make that out?—That is an important point. If we had a 10 rupee piece we should just tell certain operatives in the Bombay Mint to go and coin it when they were not coming anything else, whereas if we had a branch mint for the coinage of sovereigns, as you will have seen from the Parliamentary Paper (H C 495 of 1913), we should have to have a separate mint with a separate deputy mint master and an assayer and a deputy assayer and a chemist, and quite a large number of officials who would be doing very likely no work all the year round but would be drawing their salaries all the year round

1247 I think the gold coins will cost you something?—Still, it is one thing to let the present mint master and deputy mint master and so on be responsible for a little additional work in the mint, it is quite another thing to let them go on doing their present work and to appoint this very large, expensive, and highly skilled additional staff to look after the gold mint in which it is possible that they would be doing practically nothing. In any case there would be a double set of salaries and working expenses to be paid

1248 I think it is said that it would save 10,000l, but I think ultimately it will cost 15,000l according to the Mint reports of Australia. It will cost something to make the 10 rupee piece. India may save about 8,000l or 10,000l a year, but I do not think it will be very much, to compensate for the extra trouble in exchange?—There would be a considerable saving in the coinage of the 10 rupee piece

1249 I think, taking a country like India, you should put in figures what would be the saving. I say a saving of 10,000l is nothing. You said that when the crisis came there were 4½ millions of gold in India of which a quarter million went for trade purposes and a quarter million for light sovereigns, and the remaining four millions disappeared, so that only a lakh, or about 7,000l, was left in the currency for about two years, was it not?—I am not quite sure that I follow you last remark

1250 For two or three years, when the currency balances came out, there were 1½ millions in the London currency reserve and one lakh of gold in India?—If you mean gold equivalent to a lakh of rupees, I think you are wrong there. I am pretty sure that the holding of gold did not go down to so small a figure as you have mentioned, though I know it did go down very low

1251 (Mr Gillan) It was something quite unappreciable, was it not?—Yes, but it was not so small as Sir Shapurji makes out. On 31st March 1908 there were four crores in gold, on 31st March 1909 there were only 3½ lakhs, and in 1910 there were 9 crores 3 lakhs

1252 (Sir Shapurji Broacha) That 4½ millions did not help the trade balance in India?—Not appreciably and directly

1253 Except the quarter million which you allowed the banks to take from you for a time, and there was nothing left?—You must not overstate it

1254 What you say is that a large demand for gold in India is better for the support of the balance of trade or for exchange. My experience of India is that so soon as the exchange goes down they sweep away all the gold that you can give them from the Currency Department?—And keep it in hoards, do you mean?

1255 They keep it, Gresham's Law would come into operation at once?—Yes

1256 I think permission has been given to erect a mint in South Africa, which is the home of gold?—I do not think there is a mint in South Africa, but Sir Robert Chalmers would probably know

(Sir Robert Chalmers) There is no mint there yet, there used to be a mint in Pretoria in other days

1257 (Sir Shapurji Broacha) You know that South Africa is the home of gold at present?—That

18 80

1258 If it were advantageous to them to mint sovereigns and sell them they would have had their mint at once, and it is certain that this Government would not deny them?—That is so

1259 Is it not rather that India is asking too much, and asking for something that will bring her no gain? I know the sentiment is very great, and I myself have no objection to a mint, but I say it is really uneconomic?—As far as I can judge there is in India a feeling that unless India has a mint she will have been hampered

(Sir Shapurji Broacha) I think that feeling is confined to a few men who are articulate

1260 (Sir James Begg) What measures have been taken to carry out the recommendation of the Committee of 1898 that the sovereign should be made a current coin in India?—You are familiar, of course, with the legislative enactment under which the sovereign is legal tender, and with the measures that the Government take to give sovereigns freely at currency offices and elsewhere in exchange for rupees. I should say that that exhausts everything that is of importance. I have no doubt that often when the Government has a payment to make it does make it in sovereigns in the hope that the sovereigns will remain in circulation

1261 But so far as you know, there have been no special efforts made to encourage the use of gold?—It is really difficult to say what efforts should be made. I think I mentioned in reply to the Chairman, that for a short time in 1900 attempts were made to give people sovereigns when they would have preferred rupees. That statement had been made, and I believe it is not very far wrong. It was found to be a mistake and ineffective, because, naturally, the sovereigns came back. The present policy, which Mr Keynes calls passive, is, I think, the only practical one

1262 Sovereigns imported into India are, as a rule tendered to the Government in order that rupees or notes may be issued in exchange, is it not the case that rupees are full legal tender?—Yes

1263 And the public have been accustomed to rupees for very many years?—Yes

1264 That accounts, does it not, for the fact that the sovereigns when imported are presented for exchange either into rupees or notes?—Yes. I merely mentioned it as showing that at the present stage of India's development and the taste for gold, the natural destination of sovereigns imported into India is in the first place to go into the paper currency reserve, but I realise, of course, that it goes out again afterwards

1265 If some of them are sent up into the districts in the interior of India it is very difficult, is it not, to get them exchanged? The only place, I think, where they can be exchanged at par is at the Government treasury, and very often that is some distance off, as there is only one Government treasury in a large district?—I gather from the reports of the Paper Currency Department that the difficulty of getting a sovereign exchanged without paying for the exchange is very slight, and that in that respect a sovereign is more convenient to a holder in a country district than a note, because you usually do have to pay a trifle to get a note changed, but you do not have to pay a trifle to get a sovereign changed

1266 That remark was made, I think, with regard to special districts, was it not?—I dare say. I read it a short time ago, and I thought then it was of general application

1267 Do you not think a sovereign is a high unit for a gold coin in India?—Yes, and I should say that is one of the reasons why there is not so much substance as might appear in the doctrine that India ought to become much more than it is a sovereign using country. I think there has always been that natural limitation to the use of the sovereign in India that is implied in what you have said

1268 Do you not think the fact that sovereigns have been absorbed so largely in recent years shows that gold coinage is suitable for India?—Yes, certainly. It shows that people in India are glad to have gold in India at their disposal

1269 Might not a gold coin of smaller denomination than a sovereign be reasonably expected to extend

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[Continued

the use of gold amongst a more numerous class of people?—One can never tell. In a matter of this sort what one would like to know is the answer to the question that is always asked. Is there a desire for a 10 rupee piece or other such gold piece in India? Is there a popular widespread desire? But then no one knows the answer to that question, at least I think not.

1270 I think you made the remark to-day that the gold in circulation is of very little use in supporting exchange, but for that purpose it is to be preferred, is it not, to token silver coins?—Yes. If token silver coins are not backed by either a central Government reserve or a banking reserve, they are of no use whatever for the support of exchange, except of course as bullion.

1271 (Sir Robert Chalmers) Do you really maintain that sovereigns in waistcoat pockets really are a support to exchange?—No. Sir James was putting to me the question whether I had demed that they were a support to exchange, and I think we have got to this point, that in my view they are a very slight support to exchange, but they are not so useless for the purpose as overvalued tokens.

1272 The experience of 1907 would appear to show, would it not, that given a fall in exchange you would lose gold rather than derive any support from it for exchange?—Yes. That experience, so far as the export figures go, would appear to show that about 6 per cent. of the gold that we lose does serve to support exchange.

1273 Only 6 per cent?—Yes, but the other gold possessed by the Government might have afforded indirect support. I do not want to go into that unless the members of the Commission may desire me to do so, but I think Sir James understands, just as you understand, that my general position in the matter is to minimise the importance of the gold in actual circulation for the support of exchange. I think you understood, Sir James, that I was minimising it?

1274 (Sir James Begbie) Yes, but I understood also that you rather favoured the extension of the silver coinage?—No. Perhaps you would explain in what connection?

1275 In this connection, the great trouble in Indian exchange arises from the fact that there is such an enormous volume of token coins in circulation?—That is a view which has often been put forward, but which I find the greatest difficulty in accepting. I think the connection between the volume of token coinage and the stability of exchange is very remote, as indeed is shown by the fact that now at this moment the token coinage is of greater volume than ever before, and I think one might almost say that exchange is more stable than it ever has been. According to my view, as I tried to put it in answer to another member, the stability of the exchange depends on trade conditions, and the trade conditions may be affected, I admit, but are slowly and indirectly affected, if at all, by changes in the volume of currency.

1276 (Sir Robert Chalmers) Do you mean external conditions?—I should apply it both to external and to internal conditions, but I venture to say that it has more application to external conditions.

1277 (Sir James Begbie) Of course I quite understand that at the present time the quantity of popular silver coinage in circulation does not affect the question of exchange, but in a time of unfavourable trade balances, when the balance of trade goes against India, the question of the quantity of silver coins becomes a serious matter?—I do not wish to set up a special doctrine of my own but I do maintain that the importance of the mere magnitude of the token currency for the purposes that you mention is habitually exaggerated even by many authorities for whom generally I have the highest respect.

1278 The question of the half sovereign has been mentioned to-day, that in India is valued at 7½ rupees, as you know, I think?—Yes.

1279 Do you think that that is a suitable value as a unit for a gold coin?—Do you refer to the fact that it is a broken sum?

1280 Yes?—I cannot tell, you know much better than I do.

1281 It is very little used, as a matter of fact?—It may be that the fact that it is for a fractional multiple of the unit may be one of the causes of its not being used, I do not know about it.

1282 The fact is that it is a very awkward unit of value, and therefore it is not so much used?—I take that from you.

1283 Another point mentioned to-day was the question of sovereigns coming in from Australia or Egypt, of course these would come in much cheaper than from England?—Yes.

1284 But the quantity obtainable in Australia and Egypt is limited?—Yes. It varies enormously year by year, sometimes Australia has many million sovereigns to part with, and sometimes very few.

1285 (Mr Gillan) I think there was a discussion at one time, was there not, about the advisability of importing half-sovereigns?—Yes, there was what we call in the India Office a demi-official discussion, I think, between Sir James Meston and myself. At that time I think Sir James Meston was rather in favour of importing the half sovereign, I was against it.

1286 I did not know exactly what form the discussion had taken, but on the whole the conclusion was, was it not, that there were reasons against large imports of half-sovereigns on the ground that there were many light weight half sovereigns, and that they would lose more by use in India and so on?—There were those considerations. Then there was a further rather general consideration that on the whole the Government had better not enlarge its functions by becoming an importer of gold coins and that it was better that gold coins should be imported by other people. Then there was another consideration which may sound unpractical, but really I think it is very practical. It was suggested at first that it would be worth trying the experiment to see what became of half a million or a million half sovereigns if they were imported into India. I felt very strongly when I took part in this demi-official discussion that it was no good trying the experiment unless you could judge the results. If at the beginning of a year you put a certain number of half-sovereigns into India, there is no reasonable chance of your being able to find out at the end of the year what had become of them. It is a subject on which inquiry of any value could scarcely be made. Finally, I may mention this, in case you are interested in it. We got some of the exchange banks which import British gold coins to undertake to import some half-sovereigns as well as sovereigns—hitherto they had imported boxes of sovereigns. I think they have imported half sovereigns, but I have read somewhere, I forget where, they are not popular.

1287 I take it that the imports of half-sovereigns into India in any case have been exceedingly small?—Yes, but they probably have been growing.

1288 Have you any figures to show how many half-sovereigns have been available in India, supposing the people wanted them?—No. The trade figures show the British gold coins, sovereigns and half sovereigns, mixed up.

1289 I only asked that because an inference was based on it regarding the popularity of the half-sovereign, and I did not know to what extent they actually are available?—I cannot say.

1290 About the attitude to be taken by Government with respect to different forms of currency, I think it was perhaps suggested that there was some difference in respect of gold and gold currency notes?—That is so.

1291 The position is, is it not, that these currency notes are encashable only at about half a dozen centres in England?—At eight, I think.

1292 At other centres they are naturally liable at any time to go to a discount?—Yes.

1293 And any action that Government could take would be in the direction of making them encashable at more places?—Yes.

1294 Would that not be somewhat in the nature of removing an obstacle in the use of currency notes?—Yes.

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[Continued

1295 Rather than directly encouraging them, so to speak?—If Mr Keynes were arguing it with you, he would say that it is equally possible either to give or to withhold facilities for the changing of sovereigns into rupees

1296 May I put it in that way—that this would be removing an obstacle and putting the note on an equality in the matter of discount with the sovereign?—No It would be giving the note an advantage The sovereign is encashable—that is to say, you can get rupees for sovereigns at about three places in India What the Government does is, I think, to push the note a little more than it pushes the sovereign, it gives the legal right to encashment of the note at about eight places, but the legal right to encashment of the sovereign into rupees is given at a smaller number of places

1297 As a matter of fact, the sovereign is encashable into rupees anywhere, is it not?—Not by the action of the Government

1298 No, but it carries its value with it?—Quite so

1299 With regard to the gold mint, the subject was dealt with at considerable length, was it not, in the last financial statement of the Government of India?—Yes

1300 And the reasons why the Government of India recommended it were given there by Sir Guy Fleetwood Wilson?—Yes

1301 That is the last expression of opinion of the Government of India on the subject?—Yes

1302 (Chairman) Will you hand in that financial statement of the Indian Government, so that we may have their latest expression of opinion?—I will hand in a copy of what Sir Guy Fleetwood Wilson said \*

1303 (Mr Gillan) I take it that your general position is that in the matter of gold it is better to increase our reserves than the gold circulation?—Yes, but I would not want the increase in the gold circulation to be stopped until the reserve had reached the particular sum

1304 No, but that is your general tendency?—Yes

1305 In this despatch No 59, which the Government of India sent home on the gold mint, it is stated in paragraph 23 (see page 62 of H C 495 of 1913) that they look forward to the effect of the establishment of the mint being "to swell the volume of sovereigns in the hands of the people and increase their active circulation Of the advantages of such an increase in the circulation we have already spoken It diminishes the pressure on the Government of India for the coinage of silver It keeps down the heavy responsibility that rests on them for the convertibility of the rupee, and thus simplifies the problems of exchange" That, I take it, you do not agree is an objection to establishing the mint?—I do not think it has very much force in it. I will not say there is no force in it, but I am not very much impressed by the argument, I think

1306 As regards the sentiment which has been expressed in favour of the gold mint, it is perhaps rather illusive, but I want to know exactly what you think of it Suppose it is put in this way, that India is a very big country, that it has already very large financial interests and commercial interests, that in India both gold and silver are established as legal tender coins, that you may at any time have a flow of gold from coinage to bullion, but at present there is no facility for the counter flow of gold from bullion into coin, and that considering the largeness of Indian interests, some facilities of that kind should be established on the spot Putting it on those general lines, what would you say to that sentiment, as you call it, or feeling?—I can understand that that line of argument which you have developed would appear convincing to some I do not think that the correctness of your argument has much to do with the existence or non existence of the sentiment, which, being a sentiment, would have little to do with any reasoning process Taking the argument which you

are developing as a mere reasoning, I should say that whether it is conclusive or not depends on one's view as to the facts I think all the facts seem to indicate that the people who have gold bullion in India have it because they want it in that form as is suggested in paragraph 2 of Lord Crewe's despatch of the 18th October 1912\* I see nothing to support the view that if they had the opportunity of getting it coined they would have it coined in any large quantity If a sentiment such as has been alleged really exists and is widely spread, I do not think it rests on that logical foundation It probably rests on the feeling that it is a fine thing for the inhabitants of a particular country to handle the coin which was minted at the mint of that particular country, You remember probably that the issue of coins is one of the attributes of sovereignty, and possibly an Indian would feel proud that his country should do the issuing of coins in the most noble of metals I should think that that, which in me personally would not call forth much sentiment, probably is at the bottom of the sentiment rather than the good reasons which you have given

1307 Suppose you put it on more purely political ground, suppose a sentiment of this kind among what Sir Shapurji has called the articulate Indian public, and that they feel that if any one of the self governing Colonies, we will say, had asked for a mint it would have been given it as a matter of course, and that something is refused to India which would have been given in the other case, do you think that is a sentiment which, we will say, ought to be humoured?

—Yes, I think that one has to recognise a sentiment of that sort But then I look ahead, and think what will be the position of the sentimentalist, if I may use that word in the non disparaging sense, if the mint is opened and costs, say, several thousands a year, and in the first year it costs, say, 15,000 sovereigns and in the second year 10,000 sovereigns and so on until a sovereign and more is spent on coining a sovereign, and if after some years of that the mint, as Sir Shapurji says, is scrapped because it is so ridiculous to have an expensive mint which does no business, I think you will probably be, I was going to say, outrageous in injuring and wounding the sentiment of the classes that are spoken of, more than they would be wounded by the refusal of the mint now

1308 Now about the amount of gold that is likely to come to the mint Take what happens in a bad time of scarcity with an unfavourable exchange, it is the sovereign which is valued at a premium, is it not?—Yes

1309 It is worth perhaps 15 rupees 2 annas, or 15 rupees 4 annas?—Yes

1310 There is no likelihood of a sovereign then coming out, or of anyone bringing gold to the mint to be coined?—That is so

1311 So it is not in those unfavourable seasons that we can expect any coming to be done?—That is very true

1312 Take the contrary case in which you have got a strong exchange and when there is a very strong demand for currency, at that time the chief demand is not for gold—for sovereigns—but for silver currency, is it not?—Yes, that is so

1313 At that time it costs more than 15 rupees to land a sovereign in Bombay?—Yes

1314 That is shown, is it not, by the fact that the exchange banks do, in point of fact, import a great number of sovereigns from abroad?—Yes

1315 At the same time you have got a large quantity of bullion in the country?—Yes

1316 Is it not at least conceivable that when the demand is for currency some of the bullion would come out of the boards held in the country and be presented at the mint?—Yes Now we have got away temporarily from the question of sentiment and have got back to the question of the convenience of the Government and of the commercial public May I say, without appearing as though I were trying to be in any

\* Not printed See pp 16 and 17 of "East India—Financial Statement and Budget, 1913-4" (H C 130 of 1913)

\* H C 495 of 1913, page 65

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[Continued

way epigrammatic, that what you have put is that the opening of a gold mint would probably have the effect not of giving India sovereigns when she might be calling for them, but of giving her sovereigns just at the moment when she is extremely likely to be embarrassed by having too many of them, because the time you are speaking of is a time of a great inflow of sovereigns imported by the exchange banks, and India is rather embarrassed, and the Government is rather embarrassed, by having to receive too many sovereigns and give out in exchange for them too many rupees.

1317 That is not precisely my point. There is a great demand for sovereigns in order to unlock the silver mints and get out the rupees, and the business is run upon a very fine margin. These exchange banks are always looking about for a place where they can get these means of unlocking the mints most cheaply, and it might happen that the cheapest method to them would be, instead of importing sovereigns, to get the bullion which is in the country and have it minted?—It might be, but I see no special reason for supposing it would be. There are very great advantages which they enjoy at certain periods of the year in the Australian exchanges which compensate them for the cost of sending sovereigns from Australia to India and which are nearly equal to the cost of freight and insurance. I should have thought that it is very doubtful whether they would find it advantageous to an appreciable extent to get their gold currency in that way.

1318 Are we quite justified in prejudging that question?—No, but if that were to a great extent the business foundation of a scheme for setting up a gold mint at an appreciable annual cost, it would be a rather slight foundation. I will not go further than that, but I think up to that point I can properly go.

1319 (*Mr Keynes*) Is this your position, that on the kind of occasion which Mr Gillan is thinking of,

the people would not be wanting to buy sovereigns, but they would be wanting rather to sell their gold?—At first I dealt with Mr Gillan's question on that point, but now I see that what he is putting to me is this: the exchange bank would have two sources of supply—Australia and the possessor of gold bullion in India—and he is asking whether I think that the cheaper source of supply would not be the latter. My answer is that it might be, but there is much uncertainty about it.

1320 That is the same point, is it not, it would be meeting the convenience of the people in India who wanted to sell gold?—Yes.

1321 (*Mr Gillan*) It is the case, supposing a special Indian coin were adopted, that the cost of running this gold mint would be very small?—Yes, that is so.

1322 I do not know if you have got in your mind any other disadvantage against the gold mint than those we have been discussing?—No. I think the only things against it are, first, that if it were for sovereigns it would be comparatively costly, and secondly, that it might by its failure to attract a large amount of gold for coinage, wound that very sentiment that it is intended to please.

1323 Putting aside that sentiment, the suggestion of this new coin, if it were adopted, would enable the bullion in India to be coined at a small expense?—Yes, certainly.

1324 (*Sir Robert Chalmers*) Would it not be cheaper to have bullion tendered without its going through the mint?—It was the practice formerly that the Government of India received bullion, but they rescinded the notification under which they received it, and I think they were fairly well justified in doing so, because it was rather a nuisance for Government to have to receive gold bullion in exchange for rupees, and not to have any means of dealing with bullion except either selling it or sending it home.

The witness withdrew.

At the India Office, Whitehall, S.W.

FIFTH DAY.

Thursday, June 12, 1913.

PRESENT

THE RIGHT HON AUSTEN CHAMBERLAIN, M P (*Chairman*)

Lord FABER  
Lord KILBRACKEN, G C B  
Sir ROBERT CHALMERS, K C B  
Sir ERNEST CABLE  
Sir SHAPURJI BURJORJI BROACHA

Sir JAMES BEGRIE  
Mr ROBERT WOODBURN GILLAN, G S I  
Mr HENRY NEVILLE GLADSTONE  
Mr JOHN MAYNARD KEYNES  
Mr BASIL P. BLACKETT (*Secretary*)

Mr F W NEWMARCH called and examined.

1325 (*Chairman*) You are Financial Secretary to the India Office, I think?—I am.

1326 How long have you held that position?—I have held that position since 1911, before that I was Assistant Financial Secretary since 1902, and before that I was in the Military Department. I have been in the Finance Department since July 1902, with the exception of a very short interval when I was Secretary in the Public Works Department.

1327 I understand that you are prepared to give evidence on two subjects with which we are concerned, namely, on the question of the sale of Council bills and telegraphic transfers, and on that of the paper currency reserve?—Yes.

1328 Do you propose to offer evidence on any other points?—I have no desire to offer evidence on the other

subjects within your reference. I think you will have very full evidence on those from other witnesses.

1329 You have prepared have you not, memoranda on those two subjects, which we have before us?—Yes.

1330 Those I propose to take as part of your evidence and to print with our proceedings. (*See Appendices VII and VIII*) Taking first the paper relating to Council bills and transfers, the sale of these dates back I see to the time of the East India Company?—Yes.

1331 Is the practice of selling bills and transfers in excess of the actual immediate needs of the India Office, equally old?—I can find an instance in the year 1863-4. In that year the actual drawings exceeded the Budget estimate of them, and also of the

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[Continued

home charges, by more than 3½ millions, or more than 65 per cent. Commenting on this in the Financial Statement of the Government of India, Sir Charles Trevelyan, Finance Member, said, "The sale of the Secretary of State's bills has given great relief to trade by obviating the necessity for the remittance of an equal amount of bullion from England." There are not very many years about that period in which the drawings largely exceeded the Budget estimate. In the period 1872-3 to 1898-9, sales were very much affected by the decline in exchange, and the Secretary of State had many times a difficulty in drawing, or was unable to draw, the whole amount for which he had budgeted. But in the two years 1881-2 and 1883-4, the estimates were exceeded. In the first year the home charges were 14,825,600*l.*, the Budget estimate of the drawings 17,200,000*l.*, and the actual drawings, 18,412,429*l.* In 1883-4 the home charges were 13,911,800*l.*, the Budget estimate of drawings 16,300,000*l.*, and the actual drawings 17,599,805*l.* There were not many other years about that time in which the drawings exceeded the estimate, because the great fall in exchange rendered it impossible. Then we come to the year 1898-9, when I find a Minute by Sir James Westland, who was then Finance Member to the Government of India, which was laid before the Fowler Committee, and perhaps I might read you a passage from it. He said, "The distribution of Council bills over the twelve months remains entirely in the hands of the Secretary of State, we in India give him from time to time our recommendations, and especially advice as to the amount we can make available for his drawings, but as the primary object of the Council bills is to place him in funds for the expenditure which he has to undertake, we leave it to him to consider when drawings may be eased off for want of commercial demand, or increased to meet commercial demand. At the same time we are quite aware that the policy of the Secretary of State in the matter is the same as our own, that is, to draw during the 12 months as much as we can meet." Since that time we find frequent references to the same point. Perhaps I might quote you one passage if you will allow me, from the Financial Statement for 1906-7: "The drawings of the Secretary of State have largely increased during the past three years, the average sales from 1903-4 to 1905-6 having been 26,620,000*l.* against an average of 17,620,000*l.* during the previous five years. This increase does not correspond to any equivalent expansion of the Secretary of State's requirements on revenue account (which constitute the home charges proper) though there has been some growth of the latter also. It is due primarily to the great demand for remittance to finance the export trade of India which has developed very largely of late."

The policy of Government has been to sell Council drafts freely so as to supply the demand to the fullest extent up to the limit of our capacity to meet them." One can find many passages like that embodying the same policy.

1332 You would agree, I suppose, that it is unusual for any Government to do business of that kind?—I suppose it is unusual. The practice has existed for over 50 years. I think what we are doing is very similar to what, in the same direction, an English company doing business in India does, it has to draw its profits home, and it just deals with exchange to the extent that it seeks for the best opportunity and the best rate it can get in the year for drawing its funds home.

1333 In the passage which you have just read, the writer, I think, spoke of drawing in excess of the current demands of the Secretary of State for revenue?—Yes.

1334 The distinction between his demands for revenue purposes, that is, for the current expenditure of the year, and for capital purposes, is important?—Certainly.

1335 Does he draw in excess of his demands for both current expenditures and capital purposes?—I think so, certainly. I think one might put it this way

—that when any country has any surplus of revenue over expenditure, such a surplus is properly applicable either to the reduction of debt or the reduction of borrowing. India is a regular borrower, and she must borrow every year for public works. It can only be a question in India's case, not of actually reducing debt, but of reducing borrowing. The borrowing has to be done mainly in this country, and therefore the surplus revenues which are available, must, I think, be remitted to this country for that purpose.

1336 My question to you was whether he sold in excess of his requirements, both on revenue account and on capital account?—He may in any one particular year. I think the recognised principle is really this—that there is a certain standard balance with which the Government of India think that they ought to close the year, which is put at about 12 millions or 12½ millions, and if they see their way to finishing the year with a larger balance, then it is considered right that those balances should be drawn home to this country if the state of exchange permits of their being drawn home profitably, although they may not be required in that particular financial year for either revenue or capital purposes. It is so much ready in advance, and if the exchange is favourable, we can get it home one year in anticipation of the needs of the next year, then we have so much less to draw in the next year, and the less danger of a drop in exchange by overselling.

1337 The governing factor being really that the Indian Government is a continual borrower in London?—Yes, we have to borrow in London, and we have to incur the major part of our capital expenditure, that is to say, on railways, rolling stock, and all that kind of thing, in England. If India could produce its own rolling stock, its steel rails and so on, as I hope it will do some day, to a much larger extent, then the balances would not need to be remitted home, but they could be used in India for capital expenditure there.

1338 Wherever you can, you do deal in India now in preference to borrowing on this side, do you not?—India borrows on a small scale, for instance, she seldom borrows more than three crores in a year, but she is able to borrow those three crores on much more favourable terms than we could borrow here.

1339 Why then does she not borrow more there?—I think that is a question for consideration, and I may say it is one which the Secretary of State has brought to the attention of the Government of India recently. At the same time I think the Indian market is narrow, and that it would not admit of the borrowings in India being very largely increased.

1340 Just give me the reason for that last observation of yours—that it would not admit of the borrowings in India being largely increased. Is that because the charges for which you borrow have to be met on this side, or because, in your opinion the amount of money that would be lent in India is inconsiderable?—I meant that the amount of money available for investment is limited. I think India can meet a three crore loan, that is to say, two millions, very easily, and possibly a four crore loan might be raised easily, but if you tried to raise the borrowings in India to any very large scale, you would damage the rate at which the borrowing could be done.

1341 When selling Council bills and transfers how do you determine the minimum rate for any given week?—There is one absolute minimum, which is 1s 3¼*d.*, that is considered to be the gold point, and the Secretary of State rigorously stops at that point and does not sell his bills below that. When you come to any minimum short of that, I should say it is a matter of discretion, and it is determined by the conditions of the time, whether the Secretary of State's demand for money from India is a very urgent one or not a very urgent one, and also I think some consideration has to be given to the dearness or cheapness of money in India, for instance, if the bank rates in India are very high I think that is rather a reason for selling more freely, even if the rate of exchange is not very good than we would otherwise do.

1342 When you have sold the amount which you have offered for sale on a particular Wednesday, what is your reason for selling intermediate bills in the

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course of the week following?—We charge a somewhat higher price for them. We offer to sell intermediates at  $\frac{1}{2}d$  higher than the rate at which we sold the bills on the Wednesday, or, at any rate, at which we sold part of the bills on the Wednesday, so that we get a little extra profit in that way. I think from the point of view of the public these intermediates are a very great convenience, because a great deal may happen between one Wednesday and another. A sudden demand may spring up in India for money, and a great amount of money can be remitted to India by telegraphic transfers, say, between one Wednesday and another. That is a very valuable convenience, especially when our rate is at its maximum. Then there is the other consideration, that if they apply for an intermediate, or a special, as we call it, they are sure of getting the whole amount they apply for, so long as the Secretary of State has not sold up to the limit up to which he means to sell intermediates—for he has a limit, although that is not definitely announced.

1343 He does not bind himself then to sell an indefinite amount?—No, except when the rate gets to its maximum, and then he sells without limit. In this way I say it is a convenience, because the buyer of a bill can be sure of getting a certain amount instead of getting, perhaps, only half of what he applied for, or a tenth, or something like that.

1344 Does that not have a tendency to keep down the tenders on the regular Wednesdays?—No, I think not, because we always charge, as I say,  $\frac{1}{2}d$  more for these intermediates than we have done on the previous Wednesday.

1345 Supposing a man knew that if he did not get the bills on Wednesday he would not have another chance till the following Wednesday, would that not induce him to put in a higher tender than he puts in now when he knows that he can always get the full amount he wants within  $\frac{1}{2}d$  of the rate at which they were allotted on the particular Wednesday?—It is a good price for the certainty, I think, and it is a great convenience to the market. I do not think it affects the demand on the following Wednesday.

1346 I understand that all the sales are approved by the Finance Committee and by the Council?—They are after being done.

1347 Is that a purely formal proceeding?—Of course, as regards what has been done on Wednesday it must be a formal sanction, but the presentation of those figures affords an opportunity for members of the Finance Committee, and afterwards members of the Council, who have not had a part in this, to offer their views and to make suggestions if they think fit as to future sales.

1348 In some circumstances I see that you sell bills or transfers against gold in transit from either Australia or Egypt?—Yes.

1349 I do not quite understand why that is done, although it is mentioned in your memorandum (paragraph 11 of Appendix VII, page 218), perhaps you would explain it to me a little more clearly?—This practice was begun in December 1905. Before that time it had been the practice of the Secretary of State to hold a certain amount of gold—I think it was the fixed practice at that time to hold five millions of gold—in this country, which might be used for the purchase of silver, and it might be depleted in that way. Supposing we depleted that stock it might be useful to bring home more gold, it is a cheaper method, if we want to replenish our stocks of gold here, to buy gold in transit rather than to ship it from India, because we save the cost of insurance and freight. They cost us nothing if we buy it in transit, because we give to the seller of the gold a transfer on India of the equivalent at 1s 4d, so we practically buy the gold at par. He gets just the same number of rupees for his transfer—it may be a transfer, say, of 15 lakhs—as he would for 100,000 sovereigns, and we bring the gold to this country free of charge practically. It all rests upon the assumption that we want to bring gold here. But there is a still more advantageous method by which we can increase the amount of gold or replenish the amount of gold we hold here if necessary, that is, by earmarking gold

against sales of transfers in the ordinary way, for instance, transfers at 1s 4 $\frac{1}{2}$ d. When the occasion arises that it is not convenient for the Government of India to meet our bills or transfers from their Treasury, we practically effect a transfer of currency money from India to this country instead of a transfer of Treasury money, and we then practically buy the gold at 1s 4 $\frac{1}{2}$ d probably instead of at only 1s 4d.

1350 You earmark the gold part of the paper currency?—Yes.

1351 And you lodge the gold with the Bank of England?—Yes.

1352 And issue additional notes in India against it?—Yes.

1353 As you have explained, the Secretary of State does draw money in excess of his immediate needs?—Yes.

1354 And in anticipation of future requirements?—Yes.

1355 What have you to say as to the effect of that upon Indian trade and commerce, does it reduce the amount of capital available in India?—I think not, because every sale of a bill or transfer releases so much money which is locked up in the treasuries of the Government of India, and puts it on the market. It has the same effect on the market, I think, as a shipment of sovereigns, except that the sovereigns go on the market direct, whereas the money represented by the Secretary of State's sale of a bill or transfer is paid out of the Indian treasuries.

1356 I understand you to say that the reason why the Secretary of State does not stop selling bills as soon as his own immediate needs are satisfied is, because of the uncertainties of exchange in the first place, that he is glad when opportunities offer to guard himself against a future fall?—Yes.

1357 And, in the second place, because it is found convenient and helpful to Indian trade that he should sell the same?—Yes.

1358 Are there any other reasons for that course which he pursues?—I think the real underlying ground for the whole system is what I have referred to before, that if India holds surplus balances as the result of very prosperous years, such as India has had recently, the proper disposal of those surplus balances is for the avoidance or reduction of debt, and the natural thing is to bring them home here. I might instance the case of the present year. The balances of the Government of India have risen to a very high level—they were over 19½ millions at the beginning of the current year—and our balances were over eight millions. According to the Budget, those balances will be reduced by over 11 millions in the course of the present year—the balances in India will be reduced to about 12½ millions, and our balances will be reduced to four millions. Those 11 millions will go towards the reduction of borrowing.

1359 Take those 8 millions, how long have they been here waiting for what I may call their permanent employment—I do not mean to suggest that they have necessarily been entirely idle?—As I say, we started this present year with balances of a little over eight millions, and we budgeted to reduce them to four millions, so those four extra millions have been lying here.

1360 Is there any reason why they should not have lain in India until they were required?—Only, I think, that reason of the question of exchange—that our policy must be to make hay while the sun shines.

1361 In fact, the apprehension that if you do not move them to this side when you can, you may not be able to move them to this side when you need them?—Quite so, and that they may when they are here serve as a resource against a fall in exchange. In fact, I think the same argument applies as to holding the paper currency reserves and the gold standard reserve funds here, they all serve the same purpose in meeting an exchange crisis.

1362 A large part of those balances is lent out here in London?—Yes.

1363 It is not unnatural that when rates are high in India that should give rise to criticism in that country, is it?—No, I can understand that.

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1364 Do you think anything can be done in India's interest to meet that criticism?—I have very little first hand information, but I understand that the balances in India might be lent out to the advantage of trade to a moderate extent, and during a very short period of the year. But then one finds opinions absolutely opposed to that, as, for instance, Mr James Anan Bryce said in the House of Commons a few months ago that the idea of lending money in India was an absurdity.

1365 On what grounds?—Perhaps I might quote what he said for what it may be worth. "The idea of employing the Government balances in India is an absurdity. If they did use them there the value of money, which is at present on the average rather higher than the value in London, would fall below the level of the market money here, supposing the balances continued as they are at present. I noticed a case this morning of the violent fluctuations which take place in the money markets in India. The rate of the Bengal bank was at 8 per cent, and to day it is at 7 per cent, and money is really not lendable in India at over 5 per cent. The reason of that is the failure of the autumn rains in the Punjab, with the result that the supplies of wheat have been very small and exports from Karachi have in consequence ceased."\* I do not profess to offer that as my own opinion. I think the more general opinion is that the balances in India could be lent during a portion of the year, though only to a moderate extent.

1366 (Mr Gillan) What is the date when Mr Bryce made that statement?—13th February 1913.

1367 (Chairman) In paragraph 21 of Appendix VII, pp 220-1, you deal with the sale by the Secretary of State of bills in excess of his requirements, and I think you point out that he not only sells in excess of his own requirements, but that he has sometimes sold bills in excess of the power of the Government of India to meet them out of their ordinary resources?—Yes.

1368 The justification, as I understand, for this is the convenience of trade?—Yes.

1369 You quote what happened in 1900 as a proof of the desire of the commercial community that this practice should continue. In paragraph 24 of Appendix VII (page 221) you quote from a communication from the Associated Exchange Banks of Bombay a protest which I observe was directed against the sudden withdrawal of facilities. They telegraphed to the Government of India on 16th January 1900, that "Acute financial stringency prevails, caused by sudden withdrawal without previous notice of facility granted 21st January 1898. Banks respectfully protest against the sudden withdrawal and beg immediate steps be taken to relieve critical situation and avert panic." What the banks appear to have protested most against was the sudden withdrawal without notice?—Yes.

1370 Do you think their opposition would have been equally strong if proper notice could have been given?—I do not think the opposition would have been equally strong, and I do not think the inconvenience would have been so great, but I think it would have been felt seriously all the same. The demands for remittance to India spring up very suddenly, and I am convinced that no other means of remittance would have enabled the banks to meet such sudden demands as easily and with so little disturbance to trade as the means afforded by the free sales of the Secretary of State's telegraphic transfers. The banks would have to meet the anticipated demands for money on a large scale by shipments of sovereigns and these would have to be arranged fully three weeks in advance of the anticipated demand, but forecasts so far ahead are very uncertain. The Bank of England would very likely put its rate up in self protection, and then there would be stringency of the money market both here and in India. I would in confirmation of that ask the Commission to be so kind as to look at Table V and the diagram attached to it in Appendix VII, page 237. You will see that there is a

line which goes up into a peak something like the Matterhorn. You will also see that for the four weeks ending December 1911, sales of only about 42½ lakhs satisfied the requirements of the market, but three weeks later just under 150 lakhs were sold in one week, and in the following week 230 lakhs, more than 1½ millions, mostly at maximum rates. Now, had it been the declared intention of the Secretary of State to limit his sales in December, January, February, and March 1912 to, say, 40 lakhs a week, no doubt the banks would have prepared themselves to some extent by shipments of sovereigns in December and onwards for anticipated demands in January and February, but I do not think they would have been prepared to meet the extraordinary demand that arose or would have met it with anything approaching the ease and convenience afforded by the Secretary of State's sales of telegraphic transfers. We must remember that these free sales at a high premium are a source of profit to the Exchequer, while heavy shipments of sovereigns to India might possibly result in sovereigns having to be shipped back on Government account for the purchase of silver, at the expense of freight and insurance.

1371 The Government of India and the Secretary of State take a heavy and an unusual responsibility upon themselves, do they not, in the task which they have assumed?—Perhaps that is so. I think it is in the interests of India that they should consider the interests of trade as much as possible, as it affects revenue so largely, and the general prosperity.

1372 Does any other Government play a similar part in regulating the exchange of the country for which it is responsible?—No, I suppose not.

1373 You would not say that the circumstances of India are profoundly different from those of other countries, would you?—I think our whole position is unique, but I venture to think that this system of selling freely to meet the demands of trade works satisfactorily.

1374 In paragraph 22 of Appendix VII, page 221, you have explained in a note on the Act of 1898 the arrangements that were made for authorising the Government of India to issue notes against the gold held as part of the paper currency reserve in London to which you have already referred, would it be fair to say that that is really a way of introducing elasticity into the paper currency system, its effect being much the same as if you were to make a fiduciary issue of notes?—I admit it was somewhat similar to an increase of the fiduciary portion of the currency reserve, and in that respect its effect was similar to the arrangement under the notification issued by the Government of India some five years earlier, by which they agreed to issue notes against gold. That was before gold was made legal tender. When gold became legal tender I think both those arrangements ceased to have a quasi-fiduciary character. I think that this arrangement under the Act of 1898 was not directly intended to enlarge the currency reserve, but that it was intended to enable the Government of India to meet the Secretary of State's drawings at a time when there was a tremendous demand for them and at a time when the Treasury balances were not strong enough to enable them to meet them from the Treasury. That was the real object of the Act in the first instance.

1375 Have you ever considered the possibility or desirability or otherwise of handing over the paper currency to a central bank?—One has heard of that question, of course, a good many times and I was proposing to give you some information about it in connection with the paper currency reserve.

1376 Very well, I will not pursue that now. You say in paragraph 25 of Appendix VII (pp 221-2) that it is as important to keep exchange from falling above the gold point as to prevent it from falling below the gold point, I think Mr Abrahams told us the same thing. Supposing the Secretary of State were to cease to sell bills without limit, would there be any danger of a rise above the gold point being more than purely temporary?—No, I think not, because no doubt shipments of gold would soon relieve that. The protest to the Government of India to which I refer in that paragraph had

\* Official Report, House of Commons Debates, vol 48, page 1808.



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reference to a temporary forcing up of the exchange to 1s 4½d

1377 You have spoken in your note of the objection to an excessive accumulation of gold in the paper currency reserve, and you have spoken also of the possible necessity and expense of shipping gold home to relieve such accumulation, what is the objection to the accumulation of gold?—In the passages to which you refer I, perhaps, rather transferred into the present ideas that have been held in the past. The view as to the proper amount of gold to be held in India has been constantly changing. At first, I think five millions was regarded as a sufficient amount to hold, and an amount at which, when it was passed, the Government of India should begin to think about coming silver. Then the limit was raised to seven millions, and then it was advanced beyond that. I think the idea of the present time is practically expressed in a passage of a despatch from the Government of India in which they said "Subject to the provision of sufficient rupees and reserves of silver, we would allow our stock of gold to grow indefinitely with the expansion of the note circulation, until such time as it may be deemed expedient to make a further addition to the invested portion of the reserve." So I think our present view is this: We regard a certain quantity of silver as necessary, and then the amount of the invested portion of the reserve is fixed for the time being by an Act of the Government of India, at present it is 14 crores, but an Act can be passed at any time enlarging that amount. We have got 14 crores fixed at present as the invested portion, and then we have a formula as to what shall be the proper amount of silver, and then, provided that sufficiency of silver is maintained, I think the present view is to regard without any apprehension any increase in the gold portion of the reserve, in fact the gold portion of the reserve is the really elastic portion, as it expands with the demands of trade, and has grown enormously in the last two or three years.

1378 I think in your note you rather assume, do you not, that gold in India is not as valuable for maintaining exchange as gold in London?—Yes.

1379 Will you tell me why?—I would put it in this way. When an exchange crisis occurs, in other words, when the balance of trade is unfavourable to India, the Secretary of State may have to suspend his sales of bills, and may also have to meet bills on London, as in 1907-8. The stronger his sterling resources in the shape of gold standard reserve assets, Treasury balances, and paper currency reserve combined, the longer he will be able to withstand the double strain of stopping his drawings from India and meeting drawings upon London. Gold held in the paper currency reserve in London is a certain source of strength in such a crisis. It can be readily transferred to Treasury balances on the Government of India making a corresponding transfer of rupees or sovereigns from the Treasury to paper currency reserve in India. Gold held in the reserve in India can, of course, be used for the support of exchange if the Government of India lay hands upon it and ship it home (with the expense of shipment), but if they allow it to go out of the reserve in exchange for notes or rupees it does not, at any rate according to the experience of 1907-9, serve to support exchange, because it is not shipped abroad on any considerable scale, but is taken out for hoarding or internal circulation.

1380 Have you any information as to what became of the large sums that were issued in India during that crisis, which did not go to support exchange and which were not exported, have you any information, that is, as to the proportion which really went into circulation, and the proportion which was hoarded or melted down?—I am afraid I cannot show—and this applies not only to that period but to any year—how much goes into hoards, and how much goes into circulation. We have evidence that the amount in circulation is increasing, but no one can express in anything like exact figures how much goes into hoards and how much goes into circulation.

1381 I gather, from what you said a moment ago, that you set great store by the amount of the gold resources of the Secretary of State in London?—Yes.

1382 In speaking of the gold resources in that way, do you mean actual gold or do you include securities?—It would include all—everything that he holds here, including balances.

1383 What you have said as to the importance of his holding gold does not lead you to think that it must be bullion or coin and not securities?—Not necessarily, except that the portion which is held as part of the paper currency reserve must, I think, be gold.

1384 Do you think that the holding of considerable portions of the gold standard reserve in securities is as effective for the support of exchange as if it were held in gold?—We should not so readily sell securities held as part of the gold standard reserve as we would part with gold. We should part with gold first. We can take the gold out of the paper currency reserve here very readily through the Bank of England, which would transfer a corresponding credit to the Secretary of State's balances, and then to make up the currency reserve, to keep it intact, the Government of India would similarly transfer a corresponding sum from their Treasury balances into the paper currency reserve, in that way keeping the note reserve intact.

1385 But then you are really using the paper currency reserve to buttress the gold standard reserve?—For a very similar purpose, yes, that is, for the support of exchange.

1386 Is that necessary?—I think it may be very valuable. I think possibly what we would draw upon first would be the gold standard reserve, but then the paper currency reserve would be a further reserve.

1387 On the other hand, if you have more gold in the gold standard reserve you might not need to draw upon the paper currency reserve at all?—If there were more gold or more securities in the gold standard reserve that would be so.

1388 Is it indifferent whether it is gold or securities? I understood that you contemplated using the gold in the paper currency reserve, just because you might not be ready or it might not be easy to realise immediately the securities?—Or there might be a loss on realising them.

1389 Therefore, to render you quite independent of the gold in the paper currency reserve, it would be necessary, in your opinion, to have, at any rate, a larger amount of gold than you now have in the gold standard reserve?—That is one way of putting it.

1390 I do not want to force an opinion on you if it is not yours, and one which you do not really hold, you say that is one way of putting it?—I would rather put it in this way—that the first reserve, the central reserve, for the support of exchange, is the gold standard reserve, and that the greater part of that is best held for use in this country for the support of exchange. The gold held in the paper currency reserve may serve as a subsidiary reserve to that, perhaps not to be drawn upon until we have already exhausted the other, but still it is a reserve. In the same way I would say that, supposing the Secretary of State has taken advantage in one year of a good exchange to draw balances over from India, so far as he can, without unduly depleting the balances of the Government of India, those balances held here serve the same purpose, because they relieve him up to a certain point from the necessity of selling bills on India when the exchange is bad.

1391 I was induced to put my question because I thought that some of the criticism which has been directed against what has passed arose from a certain confusion as to the uses of those two reserves and the way in which they were employed to play into one another's hands, if I may so express myself. Do you think there would be any advantage, from that point of view, in trying to keep them more independent and distinct?—I think we do keep them quite independent, and we would regard the gold standard reserve as the one immediately to be drawn upon, but I think the other serves as a useful subsidiary.

1392 In paragraph 28 of Appendix VII in dealing with these sales you say in subsection 4 (page 223) that one of the considerations which governs the decisions of the Secretary of State is that he should "allow a

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"sufficient amount of sovereigns to flow into India to supply the demands of the public" I think the working of the arrangement has been criticised on the ground that that has not been the result?—Of course the amount of gold that flows into India is regulated by the amount of the Secretary of State's drawings, and when, as in recent years, the surplus balances in the hands of the Government of India are very large, according to the policy I have stated we do draw those balances home, and that very largely swells the amount of the Secretary of State's drawings, and to that extent limits the amount of gold that goes into India. Nevertheless, in the last few years gold has gone into India on a very large scale indeed.

1393 Do you think there is any difficulty in India in getting gold when it is wanted?—I think not. There have been as much as 20 millions in the paper currency reserve lately, at the present time it is somewhat less, but it is, I think, something between 17 millions and 18 millions, and anyone on presenting a note or rupees can get gold in exchange.

1394 Do the people who need gold often have to pay a premium for it?—Certainly not, if they go to a currency office.

1395 In paragraph 30, Appendix VII, page 223, you say that it is a misapprehension of the India Office policy to describe it as adopted in the interests of the City of London and not in those of India. Is it not possible that a system which drew less from India might, at the same time, relieve the stringency of the Indian money markets, and might be advantageous to India even if it was disadvantageous to the London money market?—I hardly think so. Our sales of bills on India release these funds from the Indian Treasuries and supply the markets.

1396 So that in fact in your opinion there is as much capital available in India as there would be if neither transaction took place?—Yes. I think that there is as much money available under the system of selling bills freely as if we sold less freely and gold went into India.

1397 You hold, I think clearly, that the fixing of the exchange rate of the rupee at 1s 4d has been beneficial to India?—I do, certainly.

1398 Have you any information as to the effect which fixing the rupee rate has had on Indian trade with silver-using countries?—I have got out some figures, which I could give to the Commission if they would like to have them, showing comparisons of the trade between India and China, and also between India and Persia (which is more or less a silver-using country) before and since the fixing of the rupee. I have also got comparative figures of the imports of China and India to this country before and after.

1399 Will you circulate those figures for our information?—Certainly (See Appendix IX, pp 289-93).

1400 Can you tell me now what the general result of them is?—I should say that the general result is that while India's trade has expanded enormously since the fixing of the rupee, the expansion as between India and China has been somewhat less than as between India and other countries, but not, I think, very materially.

1401 Would you say that the effect of fixing the rupee has been advantageous elsewhere, but slightly disadvantageous there?—It has been less advantageous, I should say. India's trade has not expanded so largely with the silver-using countries or in competition with the silver-using countries, as elsewhere.

1402 (Lord Faber) I understood you to say that India can take up a loan yearly for about two millions sterling pretty readily?—Yes.

1403 Do you not think that India is increasing in wealth and in knowledge of investments every year, and that she could invest much more in rupee stocks now than two millions a year?—I think the indications are in that direction. We find that India not only takes up the rupee loan at a good price, but at a considerably better price than we can get for our 3½ per cent loan here, whereas until quite lately the price was worse, and not only that, but India is

gradually taking home some part of the rupee debt which is held here.

1404 I gathered from you, did I not, that the rupee loans are the firmest loans in the Indian market?—Yes.

1405 Now with regard to the gold standard and paper currency reserves, do you think it possible that those might be amalgamated?—No, I do not see the possibility of that.

1406 One, I understand from you, is required in India, and the other is required in London?—I think the gold standard reserve is required here, but then the paper currency reserve, you see, serves the one different purpose of a security against notes. I do not quite see how you could blend the two.

1407 You think it would be difficult, I understand, to lend out large sums on loan in India, is that because you think that gilt edged securities would not be available as against those loans in India?—I think that is one reason, certainly.

1408 Is not the effect of fixing the value of the rupee to do away to a great extent with a large gambling element that used to enter into the Indian trade before?—I cannot say that I have any definite knowledge on that point, but I suppose it would be so.

1409 (Sir Ernest Cable) I should like to ask you the question in a somewhat different form to that in which Lord Faber has put it. You said the Government of India could float loans up to about three crores per annum?—Yes.

1410 That is, at 3½ per cent?—Yes.

1411 And you estimated that they might possibly float another crore?—Yes.

1412 Could you give us an estimate how much they could float if these loans were at 4 per cent?—I am afraid I could not.

1413 It would be very much larger, would it not?—I suppose it would be larger, but I should say that the amount of money available and forthcoming would probably not increase in proportion to the extra charge which such a rate of interest would impose.

1414 You have said a good deal to day about the Secretary of State having sold bills in excess of his requirements, you mean of his actual disbursements?—Yes.

1415 Can you say if he has sold any such excess at anything below 1s 4d, and, if so, is that justifiable?—I think that it is justifiable under certain circumstances. For instance if you will look at Table III of Appendix VII (page 233) in regard to the year 1909-10 you will see that the amount sold in the first half of that year was 10 millions sterling, which was sold at 1s 3 9/16d. I think the justification for that was that it was just after the great crisis of 1907-8 and 1908-9, when so large a portion of the gold standard reserve had had practically to be transferred to India. In order to support exchange the Government of India had sold bills on London to the extent of 8,058,000, and when the crisis was over it was thought very necessary that that gold standard reserve money should be transferred back to this country. For that reason the Secretary of State sold bills very freely that year, although at a low rate of exchange. It did not have any permanent detrimental effect on exchange, I think, because before the end of the year exchange reached quite a high point, but I think it was important to sell freely even at an unprofitable rate in order to get the gold standard reserve funds back to this country.

1416 That was an extraordinary occasion, of course?—Yes. Then as regards other times, I think the circumstances of the time must decide the question upon each occasion.

1417 I see from Table IV of Appendix VII (pp 234-6) the average annual excess of exports and imports for the last five years has been between 40 and 50 millions?—Yes.

1418 While the net import of gold bullion and sovereigns was 24 millions last year. It appears that gold is being absorbed at an increasing pace, is it not likely, therefore, that the value of gold to India may become so great as seriously to hinder the sale of the council drafts needed to meet the Secretary of State's actual expenses, quite apart from his excess drawings

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about which so much has been said?—I cannot think that the imports of gold into India could be governed by anything else but the balance of trade. So long as sovereigns can be shipped to India to compete with the Secretary of State's bills, they will go there, but they will not go in except as competing with his bills.

1419 (Chairman) I did not quite gather the latter part of your answer?—I mean the extent that they will go there will be determined by the extent to which they will compete in point of cheapness with the Secretary of State's bills and transfers.

1420 (Sir Ernest Cable) Do you think the people would not pay slightly higher for hoarding purposes to get gold?—I think the people, as it is now, can get sovereigns if they want to hoard them. They have not to import them at any cost, but merely to take them out from the paper currency reserve against notes.

1421 What is your opinion about encouraging the use of gold in India?—I should wish everything to be done that would encourage the circulation of gold in India, but I do not see how Government can either encourage it or discourage it except by allowing gold to go in in the ordinary course of trade.

1422 Do you think that removing the tax on silver would stimulate the hoarding of silver instead of gold?—Do you mean the hoarding of rupees or bullion?

1423 I mean bullion?—I think it perhaps would, because it would make the import of bullion cheaper, but at the same time I am bound to say that the imposition of the increased duty on silver a few years ago does not seem to have materially checked the import of silver into India.

1424 The bulk of the currency notes in circulation are 10 rupee notes and 5 rupee notes, do you not think it is unlikely that those notes will be presented in large quantities, being of such small denominations and spread over a large country, in other words, do you not think there is very little likelihood of a run on the paper currency reserve?—Yes.

1425 In view of that answer, do you think it will be a good thing for some part of the note issue to be against the general assets of the Government, that is, entirely fiduciary, such, for instance, as the German Reichsbank note issue is?—I hardly see the necessity for a change in that direction. If I understand the Reichsbank system, it is rather necessitated by a difficulty Germany finds in getting gold. The experience of the last few years seems to show that India can get a great sufficiency of gold, and that the currency reserve expands in times of good trade automatically by the influx of gold. If you look at the tables of the paper currency reserve, you will see to what a great extent that has happened in the last two or three years. The total note circulation has expanded to a very large extent, and although that has been entirely due to imported gold, it has gone from just under 55 crores at the end of 1911 to practically 69 crores at the end of 1912, and that although in the same period the silver has decreased.

1426 (Chairman) What table are you looking at?—Table 1 in Note I, to Appendix VIII (pp 248-9). You will find there how the currency reserve has expanded in the last three years. The total circulation has expanded from, say, 55 crores to 69 crores, and the amount of silver in the currency reserve has fallen in the same period by 10 crores, while it is the amount of gold that has risen so very much and expanded the total circulation. I think that shows a great expansiveness in the currency.

1427 (Sir Ernest Cable) The point I wanted to bring out was this—that perhaps the paper currency reserve was over-protected, while, of course, the gold standard reserve is admittedly under-protected. I was trying to see whether we cannot sell some of the securities which are now in the paper currency reserve and apply that to the gold standard reserve, thus making both funds adequate to their responsibilities, and I was suggesting that, instead of the amalgamation scheme which Lord Faber suggested and which you say is impracticable?—I do not see how your suggestion is practicable. The intention of the gold standard reserve was that it should just grow from the profits

on coinage and the proceeds of the investments made from those profits and nothing more.

1428 (Mr Gladstone) I think you agreed with the Chairman—and I suppose with all of us—that the practice followed by the Secretary of State in regard to the disposal of Council bills and other things, is not followed in any other country?—I believe that is so.

1429 Do you think that similar conditions prevail in any other country in the world?—No, I suppose not.

1430 The only similar case—I think it is in no way comparable, really—would be, I suppose, Holland with its large colonial possessions, but that would be a mere nothing compared with India and this country?—It is on a much smaller scale.

1431 In regard to the table\* which you prepared showing the trade figures since the adoption of the gold standard, it seems to show that the expansion with China, a silver-using country, has not been so large as with other countries. Do you attach much importance to that?—Might not that be due to special causes, for instance, to opium and the rather extraordinary political disturbances in China that have been prevalent?—I have no doubt the disturbances in China had a great deal to do with it. I do not know about the opium so much, because the value of the exports of opium must have kept up very well until almost the end of last year, although the quantity exported has been gradually reduced. I should not attach very great importance to any declining trade with China or any want of expansion in it.

1432 With regard to loans in London and the possibility of making loans in India, you would not consider, would you, that the facilities for lending in India are at all comparable to what they are in London?—No.

1433 London, of course, is the banking centre of the world, but India practically merely finances its own people and its own trade?—Yes.

1434 (Mr Keynes) In Appendix A, II, to Appendix VII (pp 230-1) you quote the terms which are offered for the purchase of gold in transit from Egypt, has anyone ever taken advantage of those terms?—Yes.

1435 In large quantities?—Yes, in considerable quantities.

1436 Recently?—Our offer has not been open recently. I think the last time we withdrew our offer was somewhere about 1910, and it has not since been renewed. Before that happened there were considerable purchases of gold in transit from Egypt.

1437 The document I am quoting from is dated August 1910, and it is stated that it is in force 'until further notice.' It has been withdrawn, has it?—Our offer was withdrawn in August 1910, and it has not since been reopened.

1438 That was in the same month in which it was offered. Is it your impression that it was withdrawn almost immediately?—I think it was. The note I have here is that it was renewed in March 1910, and withdrawn in August 1910.

1439 The substantial point is that there is at present no offer for purchasing gold in transit from Egypt?—No.

1440 What were the reasons for the withdrawal of this order?—I think that it has not been thought necessary further to increase the stock of gold that is held in London now. We had last year about seven millions here, and we now have about six millions in the paper currency reserve.

1441 The order was deliberately withdrawn with the object of making more gold flow to India?—It was adopted with the object of drawing gold to London without the expense of shipping it from India.

1442 It was withdrawn with the object of making more gold flow to India?—You may put it that way, or not drawing more gold to London.

1443 (Sir Shapurji Bracha) You overdrew to the extent of 18 to 22 millions in the years 1910, 1911 and 1912, I suppose during those years there were a good many windfalls from opium, the railways, and other quarters?—Yes. I would like to give you some figures

\* See Appendix IX, page 289.

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on that point In the three years, 1910-1, 1911-2, and 1912-3, the net receipts from railways exceeded the Budget estimates by 6,800,000*l*, and those from opium by 6,400,000*l*, so that there were excess receipts above the Budget estimates in those three years of over 13 millions under those two heads

1444 You could use that money here against any borrowing?—Yes

1445 And against paying off what you had borrowed and what was due?—Yes

1446 Suppose that in the course of years the revenue and expenditure adjust themselves and become evenly balanced, and yet you have to sell Council bills on trade account, how will you adjust matters then? I suppose you could take something from the silver reserve and from the other reserves, but still you could not have used that balance here?—I think I might venture to say this—supposing the conditions you mention, in which there is no surplus of revenue over expenditure, that would indicate trade conditions in which there would not be such a demand for the Secretary of State's drawings The demand for his drawings depends upon the activity of trade, and if there were no surplus, there probably would not be such active demands

1447 Suppose you had budgeted for an active demand and a very prosperous trade, it might turn out to be a little more perhaps than you anticipated, but not to the extent of 18 to 20 millions?—The Secretary of State would restrict his drawings to what the Government of India were able to remit

1448 Are you not bound to supply trade to an unlimited extent at the gold point?—The Secretary of State undertakes to sell bills without limit at 1*s* 4½*d* and transfers without limit at 1*s* 4¾*d*, and to do that he draws upon the currency reserve, that is to say, he would transfer gold from India to England under the Gold Note Act, in other words, he would earmark the gold to the currency reserve here against his drawings

1449 On either side you do not go beyond 1*s* 3¾*d* either in buying or selling?—We do not sell under 1*s* 3¾*d*.

1450 And that is the kind of cost that there would always be as between one country and another, whether it were the United States, or India, or France, that adjustment must always come?—Yes

1451 The Secretary of State does not bind himself to maintain the exchange at the par of 1*s* 4*d*, does he?—He has an understood obligation to maintain exchange at 1*s* 4*d*

1452 But he is not under an obligation?—That is rather a difficult question to answer I should say that at present he recognises the obligation to maintain exchange at 1*s* 4*d* to the best of his power

1453 If the Secretary of State thinks his power of maintaining the par of exchange is sufficient, why is he afraid to guarantee, is he not confident of his own remedies?—I think he is

1454 Then, where is the harm in guaranteeing?—It is rather a difficult thing to express a guarantee absolutely on that point

1455 I suppose there are two parties to a bargain, here one is not very confident and does not guarantee, and the other wants a guarantee, why should not the first one give the guarantee?—I think that is rather a difficult question for me to answer I would not like to commit the Secretary of State on such a matter

1456 You must remember that in India the par of exchange has been absolutely necessary at any period in the history of her finance, and if that is not guaranteed will not India be injured?—I would say to that that I think the present system does command confidence in its stability

1457 It almost does, but does it do it absolutely? If it could be done absolutely, why does the Secretary of State not guarantee?—I do not see how it could be done absolutely I think that the resources for maintaining the stability of exchange are growing from year to year, as gold goes more largely into circulation and as the volume of the gold standard reserve increases I think we should be more ready to meet a great crisis than we were in 1907-8—as time goes on, still more so

1458 All that is right, but we want the absolute guarantee, otherwise we say, do what we ask you to do, and that is accumulate gold in a liquid form The Secretary of State refuses to do that beyond a certain amount If he does that, he must have confidence in his judgment, and if he has confidence in his judgment, why should not the Secretary of State guarantee the par of exchange for all time?—I think that he endeavours to do that as far as he has power I think the view taken is that a holding of sterling securities, particularly short-dated securities, serves the same purpose as the holding of gold

1459 Is it not his intention, of course, not expressed but implied, to economise the use of gold in India as much as possible?—I think the Secretary of State has no desire to economise the use of gold in India Subject to his being able to draw from India what it is right to draw to meet the home charges and to avoid debt, he allows gold to go into India as freely as the balance of trade will allow it to go Subject to the restriction I have mentioned, there is no desire on the part of the Secretary of State to discourage the free influx of gold into India

1460 I believe that, but there is a part of the correspondence that we have before us from which it appears that sometimes the Secretary of State is very nervous about disturbing the gold market in London The Secretary of State must know that there is an impression in India that that is his idea, and when India wants all the surplus profit in gold, there is that idea lurking in their minds?—I can only repeat that the view which has been taken here is that the surplus profits from coinage are as useful to support exchange if held in realisable gold securities as if held in gold, but as you know, he has decided now to accumulate gold here in the gold standard reserve until the amount reaches five millions As regards his otherwise discouraging the flow of gold into India, I could only point to the figures of the last two years as showing you to how very large an extent gold has gone into India

1461 You say India could easily take up a loan of about two millions?—That, I say, is the present standard, but, as I said in reply to another member of the Commission, I think India could meet a larger loan than that probably

1462 Do you know that loans were issued for five crores as early as 1879?—Yes

1463 I think there is a difference of 9 per cent to day between the 3½ Per Cent Sterling Loan and the 3½ Per Cent Rupee Loan?—I know there is a large difference

1464 So I think it would be safe to say that loans could be raised in India to the extent of five crores?—I think that is very likely

1465 (Sir James Begbie) In your note you talk about the method of drawing funds from India to meet the home charges, have these home charges of recent years included special disbursements in connection with the currency?—I should not include those exactly in the home charges There have been several remittances on account of currency, but I should rather treat those as opposed to home charges Our usual definition of home charges is charges upon revenue, and we treat revenue charges as distinct from capital expenditure, and also currency remittances

1466 You do not include the purchase of silver, do you, that is paid for from the balances in London, is it?—That is sometimes paid from the home balances in the first instance, last year, for instance our purchases were made from the balances

1467 And you do not include that as part of the home charges?—It is a matter of language whether we treat it as exactly part of the home charges or not I should say it was outside the home charges in the usual sense of the term Of course it has to be met, and it adds to the amount of drawings which we can budget for The amount of silver bought swells the balances of the Government of India by the amount of notes that are issued against it, and that renders the Government of India *pro tanto* able to meet so many more millions of drawings by the Secretary of State

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1468 At any rate, those payments on account of silver, for example, do not come out of the ordinary revenues of India?—No

1469 In former years there was considerable anxiety about laying down funds in London by means of Council bills was there not?—Yes

1470 In recent years there has been no such anxiety, with the exception of 1907 and 1908?—No

1471 Would it be possible to separate the sales of bills to meet the ordinary home charges from sales connected with the currency?—I think they are separated, and that you will find them shown separately in the accounts of the Government of India

1472 In the case of sales of bills there is only one amount shown—amount of bills sold?—I think when there is a remittance on account of currency you will find that is shown separately in the accounts, for instance two or three years ago, when the invested portion of the reserve was increased by two crores, from 12 crores to 14 crores, there was a sum of 1,838,000 remitted home, and that I think you will find shown in the accounts separately from the ordinary drawings of the Secretary of State

1473 That is in the accounts, but it is not presented. At the time the sales are made there is nothing to indicate whether you are selling against currency or against the Treasury, is there?—No

1474 That is a point I would like to ask you—whether it would be possible to separate the sale of Council bills drawn against the Treasury from those drawn against the currency reserve?—I do not think we could do that at the time we are doing it. We could not allocate them exactly. When we sell, say 60 lakhs in one week, it would not be convenient to draw 40 lakhs of those on account of the Treasury, and say 20 lakhs represent part of the sales towards bringing home two crores of the currency reserve.

1475 Do you mean that it would be a disadvantage from a bookkeeping point of view?—There would be no great advantage in it, I do not think it would be very convenient to attempt to do it

1476 (*Chairman*.) When such a transaction takes place, do you always decide how the proceeds of particular bills are going to be applied before you sell the bills?—We allocate a particular quantity of the sales at the end of the year to a particular purpose, that is to say, when we arrive at the end of the year and we have drawn more than we budgeted to draw, a part has been represented by, say, two crores remitted home for investment on account of the paper currency reserve, and we show that separately, but we could not allocate it to the sales of a particular month

1477 (*Str James Begbie*.) It is left until the close of the year to do that?—Until it is shown in the accounts

1478 You say in paragraph 14 of Appendix VII, pp 218-9, "the present system of regulating the amount of the drawings for each year" is so and so, can it be said that the amount of the drawings in recent years has been regulated by the system you describe?—Yes

1479 There have been very wide differences between the estimates and working results, have there not?—Quite so.

1480 You do not work to the estimates?—We keep to the estimates very largely, as you know, but if it is found later in the year that the balances of the Government of India will be so much larger than they anticipated, then they will be able to remit a large additional amount.

1481 On the question of regulating the sales of bills throughout the year, I understand you think it might be possible for the Secretary of State to restrict his drawings during the first half of the financial year to an almost insignificant amount, and to meet almost the whole of his requirements during the second half when he might sell his drafts at a higher rate than they would command in the dull season. Do you refer to the bills drawn to meet ordinary Treasury expenditure?—I am there talking of what might be taking place in a year of favourable seasons and trade. It might be possible, if those favourable con-

ditions could be foreseen, to do so, but then it is a large assumption, and one cannot foresee, we do not know until the monsoon is established what we may be able to draw

1482 The statistics you give us show that, except in a very unfavourable year like 1907-8, you could reasonably expect to make the greater part of the remittances at a better rate of exchange?—Yes, that is so

1483 Do they also show that, with the same exception, you could rely on the money being obtained in London?—Do you mean that the demand would be sufficient?

1484 Yes?—I suppose it would be in a good season

1485 In the last 10 years these statistics, I think, seem to show that, with the exception of one year?—In most years, yes, but as I have explained in this note, there is a great uncertainty about the monsoon, and it is safer not to rely upon being able to draw the whole of our drawings, or almost the whole of our amount, in the latter part of the year, when exchange may be expected to be higher. It is safer to draw some in the early months of the year, even when exchange is somewhat lower. It may be also necessary for our Treasury purposes, because we have large outgoings week by week, and very particularly large ones when the payment of the interest on the loans falls due. We hardly could work without drawing a considerable amount in the first six months of the financial year

1486 Do you view with some anxiety the monsoon failing, as you might not be able to sell bills?—That is one consideration. The other is, as I say, that we must obtain some funds from India, even in what we may call the lean half of the year, to keep up our Treasury balances. These drawings on the Secretary of State's bills are practically our only source of revenue

1487 At the beginning of the year your resources now are very much larger than they used to be years ago, are they not?—Not so much this year, I think. We began this year with a balance of a little over eight millions, I think

1488 I was thinking of the general positions as regards the gold standard reserve, in the case of an unfavourable year you would be in a much stronger position now than ever before, would you not?—Quite so, but we do not want to fall back upon the resources of the gold standard reserve if we can help it

1489 You refer to instances when the Government of India find themselves in a position, towards the end of the financial year, to remit home funds far in excess of what was expected when the estimates were framed, and you state that you consider such excess funds properly applicable towards the reduction of the Secretary of State's borrowing operations for capital expenditure?—That is so

1490 Do you think it is necessary that these excess funds should be drawn upon by the Secretary of State during the financial year in which they arise, and before the total is realised?—I should say that it was advantageous to draw them when the exchange was strong enough to enable us to do so, otherwise we might pile up unduly the amount that we have to draw in the following year. For instance, our budgeted drawings for this year are something over 21 millions, which is a larger amount than we have budgeted for before, I think, supposing we had drawn less last year, we should have to draw so much more this year, and we should be all the more in danger of not being able to get a good rate for our drawings.

1491 Do you still entertain the same anxiety as formerly regarding the ability of the market to take up the bills?—I think we cannot be without some degree of anxiety. As you say, in recent years the exchange has gone very well, and we have had no difficulty about drawing all that we wanted at a good rate, but we can never be free from apprehension. At the present time the exchange has fallen to 1s. 3½d., and until we are quite sure of a good monsoon, we cannot tell that we may not have a bad Autumn for our drawings, as in 1907-8. Therefore, I think we are right in drawing a

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considerable amount, as much as we can at a reasonable rate of exchange, even in the early months.

1492 Should not the disposal of your excess funds be the subject of discussion in the Viceroy's Legislative Council before they are drawn upon?—I think that can be done.

1493 So far it has not been done?—I think it has been raised in the Viceroy's Council, has it not?

1494 In paragraph 20 of Appendix VII, page 220, you refer to the events of May to September last year, when over seven millions in sovereigns were imported for the purpose of showing that if Council Drafts were held up to secure the rate of 1s 4½d, the Secretary of State might miss his market. Would it be possible for the Secretary of State to obtain information in London as to whether sovereigns were available in Australia for shipment to India, and to what extent, and also the rate at which they could be laid down in India?—I think it is a very varying rate.

1495 Yes, but you could keep yourselves posted, could you not?—I do not know how far we could ascertain, or how far it can be foreseen.

1496 You cannot foresee it, but you can keep yourselves posted from day to day as to what is the gold point of exchange from Australia, can you not?—Yes, we can.

1497 Is that done?—I cannot say that that is carefully watched.

1498 The same remark applies to the shipment of gold from London. You mention a case where sovereigns might be shipped in competition with council bills at 1s 4½d. It is a matter of the gold point is it not?—I suppose so.

1499 And the gold point is not entirely a fixed point, but varies from time to time?—Quite so.

1500 So that if you wanted to work close up to the gold point, you could do it if you wished by keeping yourselves informed of the actual gold point from time to time?—I think in practice we do keep in touch with the gold point, that is to say, we discover when gold is going from Australia or from Egypt, and at what rate we must sell in order to compete with it.

1501 In the case of those bills sold to bring home the gold standard reserve money, you did not work up to the gold point upon that occasion, did you?—Certainly not, because I think the importance of bringing home that large amount which had been transferred to India, and of getting our gold reserve back to this country, was considered to outweigh the importance of only selling at 1s 4d, or at any other particular point.

1502 You do not think, then, that such sales interfere with the gold standard?—I do not think that they do, so long as they do not cause exchange to drop below the gold point. As I have said already, I think before the end of the year exchange had quite recovered, and was quite at par, or above par.

1503 But for the time being, while you were working under par, that was working against the gold standard policy, was it not?—I hardly think so, because we were pursuing the object of getting the gold standard reserve funds to this country where they would be useful to meet another really serious decline in exchange.

1504 In paragraph 21 of Appendix VII, page 220, you refer to instances when the demand for the Secretary of State's drafts far exceed the amount he can draw from the Indian Treasuries without reducing their balances below a safe limit and you go on to deal with the sales of bills drawn for other purposes than for meeting the home requirements of the Government, as the principal reason to assist trade?—I think that bills sold when the Government of India cannot actually meet them from their Treasuries, must be said to be bills sold for the convenience of trade.

1505 But you would not say that it is the principal reason?—I would say that that is the only reason for going on selling when we have drawn up to the extent of the maximum that the Government of India can meet from their Treasuries, when we go beyond that, it is drawn for the convenience of trade alone, I should say.

1506 Another reason for the excess drawings is that the accumulation of sovereigns in the paper

currency reserve in India causes inconvenience?—Yes, it serves the purpose of meeting that.

1507 Is that due to the fact that sovereigns do not pass into circulation in sufficient quantity to absorb arrivals?—I suppose that is so.

1508 If sovereigns went into circulation, there would be no accumulations in the reserves?—That is so, but, as I said a little while ago, I think that the accumulation of gold in the reserves in India is not regarded with apprehension in the way that it was some years ago. We are content now to allow gold to accumulate as much as it can in the course of trade, so long as we retain a sufficient amount of silver in the reserves.

1509 But you sell bills for the purpose of preventing gold going out to India if you think you have got enough there already?—We have done at times.

1510 You say the Secretary of State's telegraphic transfers afford the means which no other mode of remittance does of relieving in a very short space of time a money stringency which otherwise might become serious and even disastrous to Indian trade?—Yes.

1511 Does that not express only one side of the position?—It expresses this side, that our sales of bills or transfers do release funds from the balances of the Government of India which otherwise would be held up.

1512 If they ease the money market by releasing funds, can it not also be said that in holding up the money, Government causes a stringency?—Government holds up the money automatically in the collection of revenue.

1513 And that has an effect on the market?—Yes, it is money taken off the market, clearly.

1514 With regard to the sale of bills relieving the money stringency, money stringency may be relieved in two ways—by increasing the supply of money or by reducing the demand for it?—Yes.

1515 Is it not the latter method which operates in the case of council bills sales?—I hardly follow that.

1516 It is done through council bills?—Yes.

1517 The people who buy council bills are exporting firms and exchange banks?—Yes.

1518 They lay down money in India for the purpose of buying bills or buying produce?—Yes.

1519 In a stringent money market the holders of produce are obliged to sell, I mean, that it is the tendency of a tight money market to compel the producer to sell his goods?—Yes.

1520 The people who buy the goods are the exporting firms?—Yes.

1521 And the exchange banks buy the exporters' bills?—Yes.

1522 So that a stringent money market compels the holders of goods to sell, and so to reduce the demand for money?—Yes.

1523 Council bills come in and pay for the goods that are sold, therefore you reduce the demand for money?—I am afraid you are beyond me there.

1524 What I wanted to be at is this, that the council bills, when they have gone out to India, have an effect in time of relieving the stringency of the money market when it exists, but that is done through the fact that the people who are borrowing from the banks are obliged to sell their goods?—That is where I am afraid I cannot quite follow you.

1525 In paragraph 30 of Appendix VII, page 223, you enumerate several advantages in selling drafts to meet the convenience of trade. The first is that it serves "to avert or relieve extreme stringency in the money markets of India, which would be detrimental to the commercial prosperity of the country." Is the council bill system really entitled to all the credit you give it? Is it not because the balance of indebtedness is due to India that remittances are wanted for India?—Yes, that would be so.

1526 If Government did not sell bills, specie would be remitted to pay for the balance, would it not?—Yes.

1527 So that Council bills are not really a necessity?—They are not a necessity, because the alterna-

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tive would be the shipment of gold; but I suppose that the Council bills afford a more convenient mode of remittance—especially when the demand for remittance is very urgent and pressing—than the shipment of gold.

1528 The second advantage which you mention is that "it serves to check excessive accumulations of gold in the Paper Currency Reserve in India which might otherwise have to be lightened by expensive methods." This trouble, of course, arises from the fact that there is no effective gold currency in India?—It arises from the fact, I think, that you must have a certain supply of silver, and some of that gold must be converted, or may have to be converted, from time to time into silver.

1529 But there would be no objection to holding gold in the reserve of the Paper Currency Department if it moved freely into circulation, would there?—No.

1530 The third advantage which you state is that "it serves sometimes to avert extreme stringency in the London money market which would be created if the Secretary of State, by refusing to sell drafts for the convenience of trade, forced large quantities of sovereigns to be taken from London for India," and so on. Is it an advantage to have the Secretary of State placed in the position you describe of either being obliged to sell bills or being left open to the charge of forcing large quantities of sovereigns to be taken from London to India?—I do not think that that charge quite applies.

1531 The transactions which bring about such a situation are not transactions of the Secretary of State, are they?—I am not sure that I quite follow your argument there.

1532 You are here talking about the Secretary of State, by refusing to sell drafts for the convenience of trade, forcing large quantities of sovereigns to be taken to India, and I am asking whether it is any advantage to put the Secretary of State in a position when that can be said about him?—It may be under certain conditions an advantage to India that he should be able to avert an extreme stringency in the London money market which would react upon India.

1533 But does that not put the Secretary of State in the position that if he does not sell, people will say he is forcing gold into India?—I think it is part of the system. He cannot help the situation, in fact.

1534 (*Lord Kitchener*) The fact is, it puts a certain responsibility upon him, does it not?—It does.

1535 Which he exercises, as he does, for the good of India?—Yes.

1536 It is part of the system, and he is willing to be responsible?—Yes.

1537 (*Sir James Bagnall*) You do not support by any examples the doctrine that free sales of Council drafts for the purpose of averting serious disturbance of the London money market may at times be fully justified, and indeed urgently required in the interests of India?—As a frequent borrower on the London market?

1538 Is it not a doctrine which may be interpreted differently by different people, or even by the same person at different times?—I think that is a question to which I cannot help saying yes.

1539 You talk about averting a serious disturbance of the London money market, when you come to exercise your discretion in that way, how is the stringency in the money market measured, is it a question of the height of the Bank of England rate?—That would be a good criterion of it, I suppose.

1540 In the last three or four years you have had very large sales of Council bills—unusually large sales—and at times the bank rate has not been high?—That is so.

1541 How has the stringency effect come into operation then?—I think we may in such cases treat our large sales without reference to stringency in the London money market. They have not been made with any view to averting stringency, but they have been made for the revenue purposes of the Secretary of State, or his Ways and Means purposes simply.

1542 Do you think that Council bills are always an advantage to the London market?—I should say that they were an advantage at times, not to the London money market in particular, but to persons engaged in trade with India.

1543 We are dealing here with the London money market, do you think it is an advantage to the London money market that bills should be sold?—I think so, in so far as they may prevent a large efflux of gold from the London money market, which might bring about a very high bank rate.

1544 Is it not possible that the sale of Council bills may at times operate detrimentally to the London market?—I daresay.

1545 Take the case of the purchase of silver for coinage last year. Is it not the case that the need for silver coinage arose because the stock of rupees in the currency reserve in India was below the point you thought it ought to be at?—Yes.

1546 There was too much gold and too little silver really?—I would not say there was too much gold, but the stock of silver was falling unduly low.

1547 Then the decision was come to to buy silver for coinage, and that purchase was made, I understand, by means of money provided from Council bill sales?—Yes.

1548 These Council bills were sold to lay down money for this purpose, and were paid for in India from the paper currency reserve?—It practically comes to that. They were paid for out of the balances of the Government of India, and those balances were strengthened by the notes which they were able to issue against the new silver.

1549 The silver, when coined, replaced the money in the currency reserve which had been issued in the payment of the Council bills?—Yes.

1550 That silver was an addition to the total currency, was it not?—Yes.

1551 But at the time the decision was arrived at to coin fresh rupees, what was needed was a substitution of rupees for gold in the reserve, was it not?—We might do it either way. We might have taken gold from the currency reserve in London to pay for the silver, in which case, of course, there would have been no expansion of the note circulation, or we might do as we did, buy the silver immediately from balances which led to the circulation being increased by the amount of new silver.

1552 As a matter of fact you did sell Council bills?—Yes.

1553 If a portion of the gold held in the reserve had been used to pay for the silver, there would not have been an addition to the total currency, would there?—No.

1554 By the use of sales of bills to pay for the silver, the London money market had to find the money to pay for that?—In a way, yes.

1555 The amount was over seven millions, was it not?—Yes.

1556 Would it not have been a greater advantage to the London money market to have received the gold to pay for the silver purchases?—Yes.

1557 So that it was no advantage in that case to the London money market to sell the bills?—It was no advantage to the London money market, but I think there was no occasion to consider the London money market in this case.

1558 During the time you were buying silver last year, were the India Office balances lent in the market also being reduced?—Yes they were reduced by the amount that we paid for the silver.

1559 During the same period there was about 7½ millions of gold added to the currency reserve in India?—Gradually, yes, that was in addition to the seven millions of silver.

1560 So in that case it cannot be said that the sales of bills operated in the direction of averting disturbance in the London money market?—I do not know, is not "disturbance" rather too strong?

1561 I do not wish to use too strong language. As a matter of fact, do you not think all these different operations caused some pressure in the London money

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market?—I hardly think so. It was spread over a long period.

1562 That is so far as the London money market is concerned. Is it not possible that the Indian public may have some ground for complaint that the currency was being overweighted by that operation, it being an addition to the currency when it was not necessary?—It is a question, I suppose, whether it was necessary.

1563 Is it not possible that the Indian public might have cause of complaint?—That might be so. I think the difference between buying that silver by using up gold and not immediately expanding the note circulation, and buying it from Treasury balances and so expanding the note circulation, might have only a temporary effect, that is to say, in the one case we would take the seven millions straight out from the gold of the reserve here in London, and in the other case, by doing as we did, our increased sales of Council bills to pay for this silver must reduce the amount of gold that would otherwise go into India, and, therefore, *pro tanto*, obviate a further expansion of the note circulation. Taken in connection with the influx of gold, the immediate effect was to increase the currency reserve very greatly, but I do not think the ultimate effect would be to increase it so much.

1564 That accounts for the very large accumulation of cash in the Government of India's treasuries?—Yes, that is so, in other words, if we had not sold bills in payment of all this silver we should have sold part of those bills in drawing home the Treasury balances.

1565 When you sell Council bills to avert stringency in the London money market, the great advantage to the London money market is when you sell against Treasury balances in India, is it not?—I do not think so, but perhaps I do not quite follow you.

1566 In the case of silver, for example, you draw bills to buy silver, and you spend that money at once?—Yes.

1567 In the case of bills drawn against the Treasury, you may keep your money for a long time?—Yes.

1568 So it is only when you are drawing bills against the Treasury that you give any advantage to the London money market?—That is so, I suppose.

1569 In recent years there have been very high balances caused by these big sales, have there not?—Yes, more directly by these big sales, and those big sales have been caused by the very large Indian surpluses.

1570 Of course the money is provided for by the Indian taxpayer?—By the Indian taxpayer, yes, but not by extra taxation.

1571 You have referred, in paragraph 32 of Appendix VII, page 224, to the transfer, by means of Council bill sales, of about two millions from the gold standard reserve in India to London in about 1910 and 1911, can you explain why that amount was drawn to London?—The way that arises is that besides drawing back the proceeds of the sales of bills upon India, we drew to this side some portion of the six crores that have been held in silver.

1572 Can you explain why that was done?—I could not explain at this moment why that was done, but I will look it up, if you like.\*

1573 I should like to know, if it is convenient to you?—The amount held in India was reduced by that process from six crores to 290 lakhs.

1574 The transfer was a departure, was it not from the intention, as explained when the Indian branch of the reserve was formed?—It was for the time being, yes.

1575 It also meant an addition to the currency in India at that time?—That is so.

1576 Although there was no addition necessary then?—Yes.

1577 You have explained that last year there was a remittance of 1,200,000*l* for profits of coinage from India to England, can you explain why the profits were coined into rupees?—Part of the profits

\* It was done in order to relieve the balances of the Government of India from being unduly depleted by meeting the Secretary of State's drawings.—F. W. N.

were coined into rupees to restore that six crore reserve which had been held in India before those 310 lakhs were remitted home. It was the desire of the Government of India and the Secretary of State that that six crore reserve should be restored, so as soon as we began coining rupees last year the profits were transferred to that silver portion until it was brought up to six crores. After that, the amount was converted into gold, and, as I say, it was this balance of 1,200,000*l* which was remitted home.

1578 That did not exhaust the whole of the profits, did it?—Those two items together I think account for the whole of the profits. The 310 lakhs, which were added to the 290 lakhs already held in India, brought up the amount again to six crores, and then there was the 1,200,000*l* which was transferred home.

1579 You have explained why the three crores were coined into rupees, but what about the balance, why was that coined into rupees?—Because the normal procedure is to hold all the profits of coinage, with the exception of those six crores that are held in silver in gold or gold securities.

1580 Why should it be coined into rupees?—The rupees were coined, but then against those rupees gold was set aside and remitted home.

1581 We have not got the point why you coin the profit into rupees. Why is it necessary to coin the profit into rupees?—What else would you do with it? The seven millions worth of silver produces 15½ crores of rupees, of that, 105 lakhs or thereabouts represent the equivalent of 15 rupees to the *li* on the seven millions of silver coined. The remainder is strictly profits, but it is by custom converted into rupees, and there is no other way in which you can hold it very well.

1582 We have had the suggestion made that if you draw the seven millions from India, that means that you have to replenish in India 10½ crores, and what you ought to do, is it not, is to buy enough silver to coin 10½ crores, and then the difference between the cost of silver that you buy and the seven millions is the profit, and is in sterling already?—I think it may be said that the actual amount required was the 15½ crores, only that is produced partly in the shape of a direct addition to the note circulation and partly in the shape of profits. Of those profits, part goes to replacing the silver portion, or the Indian portion of the Gold Standard Reserve of six crores, and the balance comes indirectly into the Paper Currency Reserve—it is coined rupees, and against it gold is set aside and the value remitted to this country, where it is held in gold.

1583 When you coin the profits into rupees, you give the profits to the Gold Standard Reserve?—Yes, we credit the Gold Standard Reserve with the value of those rupees.

1584 You put the rupees into the reserve and take the gold out?—Yes.

1585 Then you get no profits upon the coinage of those rupees, because it is a substitution of rupees for gold?—I think not. I think we increase the Gold Standard Reserve by the value of those extra rupees. We pass the additional rupees into the balances, but the Government of India remit home the equivalent amount, and that is placed to the Gold Standard Reserve here.

1586 (Chairman) In gold?—Yes in gold.

1587 (Sir James Bryce) You refer in one or two places, for instance, in paragraphs 31 and 32 of Appendix VII (pp 223-4), to the elasticity in the paper currency system, that elasticity is not automatic, is it?—I think it is automatic as far as the gold proportion is concerned, because when trade is good gold flows automatically into India, and goes into the currency reserve and increases the note issue, so to that extent the currency is elastic. The only part of the note issue of the currency that can be called absolutely inelastic is the silver portion.

1588 You say that people can get gold for notes in India, can you say how many places there are in India where those exchanges can be made?—I could not say off-hand at this moment how many places there are, but I can give you that figure if you like.



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1589 (Mr. Gillan) What you say in Appendix VII, paras 21 and 22 (pp 220-1), about the practice followed in the sale of Council bills might be read, I think, as showing that the system is rather an artificial one?—Yes

1590 At any rate that it is founded to a very great extent on the interests of trade, I think that was shown by some questions put to you by the Chairman?—Yes

1591 In your evidence given this morning I think you spoke about the regulation of the amount of gold going into India?—Perhaps I should not say "regulation." There is no deliberate intention to regulate it, but of course the effect of the Secretary of State's sales is, not intentionally but necessarily, to decrease the amount of gold that goes into India.

1592 May I put it to you in this way, that if any of his drawings are not in pursuance of Government requirements, then to that extent he is keeping gold out of India undoubtedly?—He may be.

1593 He is, is he not?—He may be doing one or two things—he may be keeping gold out of India, and he may at the same time be putting gold into the currency reserve here, as, for instance, when he earmarks gold.

1594 Let us consider the Treasury balances first. If he is drawing in excess of his own requirements he is to that extent keeping gold out of India?—Yes.

1595 On the other hand, if his drawings are in pursuance of his own interests or of Government interests, then, even if he is keeping gold out of India, his action is not open to criticism?—May I remark upon the phrase "his requirements"?

1596 I will come to that later, if you will allow me, that is the position, as I am putting it to you, is it not?—Yes.

1597 Granted that his drawings are in pursuance of his requirements, then you have the two currents which the critics and the Government would desire to have, namely, (1) gold going out to India, and (2) gold coming here, that is so, is it not?—There are two different sets of critics.

1598 I am assuming that the drawings of the Secretary of State are in pursuance of his requirements, either he desires to draw bills or to bring gold home, and to that extent it would not be an interference with the flow of gold to India which is open to any criticism. I am asking your opinion, do you agree?—I see what you mean—yes.

1599 Could you say that the Secretary of State, as a matter of fact, brings home a single rupee that he does not intend to use?—No.

1600 I think Mr. Abrahams has shown in his memorandum that there may be periods during which the Secretary of State has held very high balances, but that, going up to the end of the present budget year, the budget closes with a minimum balance?—The Indian balance, do you mean?

1601 And the home balance?—Yes.

1602 So, assuming that estimate of the current budget to be correct, all the money that has been brought home will, by the end of this year, actually have been used?—Yes. We budgeted for balances of about 12½ millions in India and a little over four millions here, and those can both be considered minimum balances.

1603 Will you say that the drawings have, as a matter of fact, been justified in every case by Government interests quite apart from trade interests?—I would not say always quite apart from trade interests, as I think the point at which the Secretary of State sells in the interests of trade only and without regard to Treasury considerations at all only comes in when he sells as under the Gold Note Act against currency and when the Government of India have not—

1604 Excuse me, I am at the moment on Treasury balances?—Very well, so far as we draw on Treasury balances I do not think we do it in the interests of trade only, we do it in our own interests.

1605 That is the point I am putting to you, that, during the last three or four years the drawings in every case have been justified by Government interests apart from trade interests, although I am not saying

that trade interests were not concerned or that they did not benefit?—I should say that they have been justified.

1606 You make a distinction apparently in the case of the currency drawings?—Yes.

1607 But there, also, is it not the case that the Secretary of State draws money home because it is his policy to hold a certain amount of the currency gold at home?—Yes.

1608 But for that policy he would not draw through currency, would he?—I think he would. I think in 1898, when this plan of drawing through currency was first started, the object was at that time to convenience trade by selling bills and transfers at the maximum price, at a time when the Government of India were not able to meet them from their treasures.

1609 That is to say, it was a part of the policy to hold some of the currency gold at home, was it not?—I think not. I think that was a superadded idea of a later time. If you remember, the intention of the Gold Note Act of 1898 was that the Secretary of State should hold gold for a time until he should choose to send it back to India or pass it into his balances against a corresponding transfer from Treasury to currency reserve in India.

1610 As a matter of fact, in the last few years has the amount of currency gold held at home been in any case excessive?—No, I think not.

1611 If it had been done in the interests of trade, would there not have been the consequence that the Secretary of State would have held more gold in the currency at home than he wished to hold for his own purposes?—Yes, it might be so.

1612 That is what I am putting to you. Do you consider that the currency gold held at home has been excessive, as a matter of fact, from the point of view of the Secretary of State's own requirements?—Certainly not.

1613 I wish to ask you now about the effect of Council bills on the money market of India. I think you said in answer to the Chairman that the drawing of Council bills does not reduce the amount of currency available in India?—Yes.

1614 But you also stated, later on, that you were not at the time considering the question of loans being given by the Government in India?—That is so.

1615 The two things are very much interconnected, are they not?—Yes, they are.

1616 I am not sure that in the answer you gave the Chairman you were not assuming that nothing would take the place of the Council bills. If there were not a system of Council bills, then the funds in payment of the balance of trade would have to be taken into the country in some other way?—Yes.

1617 At the same time the amount of the balance held by the Government of India would be so much the larger?—Yes.

1618 And that larger balance they might lend out in the Indian market?—Yes.

1619 So that the two systems do not come to the same thing?—No.

1620 You would actually have more money available in India if you did not draw on the Government of India by means of your Council bills?—Certainly there would be more money in India, but unless the Government of India departed from their present practice and lent out that money, there would not be more in the market, would there?

1621 That is precisely why I put it to you that, putting aside that question of lending, if you combined the two things, you would have more money?—Yes, if the Government of India lent also, there would be more money.

1622 Considering this exchange business that is done by the Government of India, the holding of a big balance at home in England, the lending of their balance, the holding of a very large balance in India, and the remittance business that they do in the internal trade of the country, you would agree, would you not, that the Government at present do, as a matter of fact, run a very big banking business?—Yes, I suppose we may put it so.

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1623 And there would be reasons for considering any scheme that got that banking business on commercial lines, that is to say, apart from the Government part of it?—Yes

1624 (*Sr Shapurji Broacha*) When the rupee coins are depleted in the currency, and the Secretary of State in consultation with the Government of India decides that they require more rupees in the currency department they make up their minds to coin a certain number of crores of rupees, 10, or whatever it may be?—Yes

1625 Suppose they make up their minds to coin 4½ crores of rupees to meet the necessities of the currency department, then they would buy two millions of silver to make that 4½ crores of coins, which would consist of 3 crores for the currency department and 1½ crores for the gold reserve?—Yes, approximately

1626 So 3 crores go into the currency for circulation and 1½ crores are sent in the shape of gold here to act as the Gold Standard Reserve?—Yes

1627 Therefore, when the Government of India coined this year 15½ crores or 16 crores, that was required for the purposes of currency according to your calculations?—Yes

1628 You bought seven millions of silver and you put 10½ crores into the currency department, and 5½ crores you have got back in gold here?—No, not 5½, 810 lakhs went into the silver branch in India in the shape of rupees held in the Gold Standard Reserve, not in the Paper Currency Reserve

1629 The profit of that was brought into the Gold Standard Reserve?—Yes, the whole profits go into the Gold Standard Reserve

1630 So of course you do not coin more rupees than you require?—No

1631 Of which for book keeping two thirds goes on account of currency and one third is transferred in gold to London?—Yes, approximately. The exact fraction of the profit depends upon the price of silver, of course

1632 But the Gold Standard Reserve gets its share of gold?—Yes

1633 And whatever the requirements are for the currency you coin so many rupees?—That is the intention

1634 But you cannot divide it up except according to your requirements?—That is so

1635 (*Chairman*) I want to call your attention to the second section of paragraph 11, Appendix VII (page 218). Mr Keynes was asking you about the paper which you put in which is headed "Conditions on which the Secretary of State for India in Council is willing until further notice to purchase sovereigns in transit from Australia or Egypt." You refer to that, I think, in this paragraph 11, where you say that it shows "the conditions under which sovereigns sometimes are purchased". I understand from your evidence that that is scarcely quite correct?—It has been true in the past. What I said was that the offer to purchase in transit had been withdrawn in the year 1910 and had not been renewed since then

1636 Were these conditions only in force for a few months in that particular year?—The offer was originally made in December 1905, then it was withdrawn for a time and renewed. It was withdrawn in June 1906, it was renewed in January 1907 and again withdrawn in March 1907, and it was once more renewed and again withdrawn in 1910. Since then it has not been renewed

1637 In your paper do you give the conditions in the form in which they were last issued?—In the form as revised in August 1910 in which they would be issued if they were issued now

1638 We want you to turn now to the note on the Paper Currency Reserve (see Appendix VIII). Would you tell me what was the reason for the transfer to the Government of the monopoly of note issuing in 1861?—As I have stated in my note, the Presidency banks had been issuing notes for over 20 years before the introduction of the Paper Currency Act of 1861, but those notes had not been legal tender, the total issues had been limited to five crores of rupees, but the actual

circulation appears to have been considerably less and it was confined almost entirely to the three Presidency towns, I think paper money was almost unknown in the greater part of India. I have got here a copy of the speech of the Finance Member of the Government of India in introducing the Bill for the establishment of the Paper Currency Reserve. That sets forth in great detail the advantages of a paper money generally and also the advantages of managing that by Government

1639 Will you give me the name of the Finance Minister?—That was Mr James Wilson, who went out as Finance Member of the Governor-General's Council in the autumn of 1859. He had previously discussed the matter with Sir Charles Wood, the Secretary of State, and he went out and set himself at once to the task of introducing an effective paper currency

1640 (*Sr Robert Chalmers*) He had been Financial Secretary to the Treasury, I believe?—Yes. If you will allow me I will hand in a copy of Mr Wilson's speech (see Appendix X, page 294)

1641 (*Mr Keynes*) Is it not the case that Mr James Wilson died almost immediately?—Yes

1642 And that the actual Bill brought in was considerably different from what he proposed?—Yes

1643 So that he is only responsible for the original drafting of the Government measure?—Yes

1644 And not in any way for the actual terms of the Act?—That is so. Perhaps I might say in brief terms what were the arguments that Mr Wilson adduced in favour of a Government paper currency. He said that in order that a paper currency should fulfil all the purposes of coin it was necessary that it should be legal tender everywhere except at the place of its issue, and the securities for payment of the notes must be absolute and undoubted. If a bank were charged with the issue of notes, it would have to be required not only to deposit securities which would ensure the ultimate payment of the notes, but also a proper reserve of bullion to secure their prompt and immediate payment. He did not think it would be practicable for any bank such as could be established in India to comply with these requirements, consistently with its duty towards the great body of its creditors. The system was only practicable in the case of the Bank of England, owing to its very large capital and the absolute separation between its banking and issuing departments. The Government of India he said, proposed to take the issue department of the Bank of England as their model. Not only would such an issue department possess a security greater perhaps than that of any bank issue in the world, but there would be a large direct profit to the State from the interest derived from the fiduciary portion of the reserve and an indirect advantage in the improvement of the Government credit from the purchase of securities for the paper currency reserve. I should mention that Mr Wilson's Bill did not become law without considerable modifications, the principal being that the lowest denomination of note was fixed at 10 rupees instead of five and that the fiduciary portion of the reserve was limited by the Act, as passed, to four crores of rupees instead of two thirds of the note circulation as proposed by Mr Wilson

1645 (*Chairman*) What is the present proportion of the fiduciary issue?—The present proportion of the fiduciary issue is about 20 per cent of the whole of the note circulation

1646 The actual amount of the fiduciary issue has been steadily increased from time to time, has it not?—Yes, it was originally limited to 4 crores, then it was raised to 6 crores in 1872, to 8 crores in 1890, to 10 crores in 1896, to 12 crores in 1905, and to 14 crores in 1911. The 12 crores were to include 2 crores of securities of the United Kingdom or securities issued by the Secretary of State for India in Council, and the 14 crores, 4 crores of such securities. That is the position at the present time

1647 There has been, as you say, a steady increase in the total amount of fiduciary issue, has the proportion grown or does it remain about the same?—The proportion is decidedly low, it is lower than it has

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been, I should say, at any time, it is about 20 per cent.

1648 It has been as high, I think, as 40 per cent?—In 1874 it was as much as 61 per cent, but the whole amount of the note issue was much smaller then, now it is larger.

1649 What is the table to which you are referring at the moment?—It is Table I of Note I to Appendix VIII (pp 248-9).

1650 (Sir Robert Chalmers) Could you tell us the class of securities in which Mr Wilson proposed the fiduciary issue should be invested?—I think his proposal was that they should be securities of the Government of India, as they were, as a matter of fact, at first.

1651 (Chairman) I understand that the non-fiduciary portion of the reserve was held in silver up till 1898?—Not entirely, there was a period during which a portion of it was held in gold.

1652 Before 1898?—Yes. The Paper Currency Act of 1861 provided for the issue, under notification of the Government of India, of notes against gold coin or gold bullion. A notification of that kind was issued under the Act on the 23rd November 1864, directing that Government currency notes should until further notice be issued at currency offices and agencies of issue, in exchange for sovereigns and half-sovereigns calculated at the rate of 10 and 5 rupees—10 rupees for the sovereign—to an extent not exceeding one fourth of the total amount of issues represented by coin or by coin and bullion in each circle. At the same time another notification was issued to the effect that until further notice sovereigns and half sovereigns would be received at Indian treasuries in payment of sums due to the Government as the equivalent of 10 and 5 rupees respectively and that sovereigns and half sovereigns would also be paid at the same rates to any persons willing to receive them in payment of claims against Government. If you will look at Table I of Note I to Appendix VIII (pp 248-9), you will see that as a consequence of the first of these notifications gold was held in the Currency Reserve on a small scale in 1864-5 and a few subsequent years, but apparently ceased to come in after 1870-1, the fall in the price of silver rendering the notification a dead letter. I have here copies of these notifications.

1653 In the early stages the whole of the reserve was held in India, was it not?—Yes.

1654 But in 1898 a portion of it was held in London?—Yes.

1655 Originally as a temporary measure?—Yes.

1656 What was the reason for that?—The reason was the excessive demand for the Secretary of State's bills which the Government of India were not able to meet from their Treasury balances, at any rate, not able to meet conveniently from their Treasury balances. The object of this Act (Act II of 1898) was to enable them to meet the drawings for the convenience of trade from the Paper Currency Reserve, the Secretary of State setting aside gold to the Paper Currency Reserve in London to the same extent that the Government of India took out money from the Paper Currency Reserve in India to meet his drawings. That was the beginning of the holding of gold in London.

1657 Should I be right in saying that to that extent the Paper Currency Reserve was used to supplement the deficiencies of the Gold Standard Reserve?—Hardly, I think, but to supplement the deficiencies of the Indian treasuries.

1658 The inability of the Indian Treasury to meet the demands of trade?—Yes.

1659 Was the step required by the necessities of the Secretary of State, or was it wholly caused by his desire to meet the demands of trade?—The arrangement was made in communication with the Government of India. I think that the Government of India were quite as urgent in desiring this legislation as the Secretary of State was.

1660 At that time gold was not legal tender, I think?—No, it was not legal tender until the following year—1899.

1661 Practically the effect was the same as an increase of the fiduciary issue of notes?—It was

similar to that, so was the notification of 1893 under which gold notes could be issued against gold in India.

1662 (Sir Robert Chalmers) Was the difference more than this, that gold was not in 1898 actually legal tender, but was merely received?—That is so. It was received at the value of 15 rupees to the £, but it was not legal tender until 1899.

1663 That had been the case since about 1893?—Yes.

1664 (Chairman) Then this measure of 1898, which was at first adopted as a temporary provision, was extended by the Act of 1900, and subsequently made permanent by the Act of 1902?—Yes.

1665 On what grounds?—Here I might perhaps read to you an extract from the speech of the Finance Member of the Governor-General's Council in introducing the Bill in 1900.

1666 Will you give us the name of the Finance Member again?—That was Sir Edward Law. He said "The silver from which the rupees are to be coined naturally has to be bought, and under the provisions of the present Act the Secretary of State has been obliged to use his Treasury balances—the resources outside the Paper Currency Reserve—for the purchase of that silver, and this has caused considerable difficulty. Being unable to touch the funds in the Paper Currency Reserve we were obliged to find fresh money for our purchases and the result was that we were looking up money in two different places at one and the same time for one and the same purpose. We were holding gold which, owing to the requirements of the Currency Reserve, we could not touch, and we were holding silver to be coined into rupees to be put, when coined into the Currency Reserve in place of that gold. The proposals now made will enable us to consider silver bought for coinage as forming part of the Currency Reserve and will enable the Secretary of State to use the gold in the Currency Reserve for the purchase of silver. At the exact moment when the gold in the Currency Reserve is converted into silver the silver bullion, which is in equally safe keeping, takes its place as part of the Currency Reserve. This arrangement will be a great convenience and save us the necessity of finding money for the purchase of silver." The provision in the Act of 1900 is "The silver bullion so purchased shall, until rupees are added to the Currency Reserve under clause C of this subsection, take the place of the gold so expended as security for the currency notes issued."

1667 The next step in the history of the reserve, I think, is the Act of 1905?—Yes. What I was reading from was the speech on the introduction of the Act of 1900, which was not the one that made the system permanent, but the one which extended it for a time and also provided for the purchase of silver from the gold held in the reserve. Then there was an Act of 1902 which made the previous Act permanent.

1668 Was it brought forward for the same reason?—For the same reason. Also at that time the advantage had come to be realised of holding gold in this country as a support of exchange in a time of crisis. That was adduced then as one of the arguments for making this system permanent.

1669 The primary object of the Gold Standard Reserve is to support exchange?—Yes.

1670 To that extent I was right, was I not in saying that this use of the Currency Reserve is to supplement a deficiency in the Gold Standard Reserve?—Yes, to supplement it.

1671 If the Gold Standard Reserve were greater, would there be any good, from the point of view of exchange in using the Paper Currency Reserve in this way?—No. If one could regard the Gold Standard Reserve as absolutely sufficient—we hope it may be some day—then the need for holding part of the Paper Currency Reserve in London would to some extent disappear, but that convenience would always remain of having gold here which we could convert at once into silver without keeping money lying idle for any time.

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[Continued

1672 The reasons which were given by Sir Edward Law?—Yes

1673 The Act of 1905, I think, enlarged the list of securities that could be held on account of the Paper Currency Reserve, was that not so?—Yes

1674 Will you tell me briefly what new class of securities it introduced?—Sterling securities, that is to say, either British Government securities or the sterling securities of the Secretary of State in Council—sterling loans

1675 What was the reason for doing that?—It was thought that in a currency crisis in India, when there was a run upon the currency, probably rupee securities would be much more affected than sterling securities. That was the reason set forth in the Financial Statement of the Government, and I have got a copy of a quotation on that point if you would like to have it (see paragraph 7 of letter from the Government of India dated 18th August 1904, Note II to Appendix VIII, page 255)

1676 I need not trouble you to put it in if you would give me the reason?—That, in fact, is what the reason was

1677 Then in 1911 a further Act was passed, which limited the amount of British Government securities that could be held, was that not so?—Yes. It rather raised the limit. The limit under the Act of 1905 to the amount of sterling securities had been 2 crores out of a total of 12 crores, and this Act raised the limit to 4 crores out of a total of 14 crores

1678 What principle governed those several limits, by what rules or by what instructions were they fixed?—What governed the relationship of the whole of the fiduciary portion to the whole of the note issue, I think, was a general idea of a proportion—two-fifths of the active circulation, or something of that kind. As regards the limit to the sterling portion of the invested part of the reserve, I think the idea was that while the Government regarded it as desirable to hold a portion of the fiduciary reserve in sterling securities, they had no intention of going in that direction beyond a moderate limit, and there was no intention of buying sterling securities in displacement of any part of the rupee holding. They did not want to transfer the whole invested portion, or anything like the whole, from rupee securities into sterling securities

1679 How is it settled how much gold shall be held in India and in London respectively on account of the paper currency reserve?—I think that that has only been settled from time to time, without any established proportion between the two. As I was saying this morning, I think the tendency lately has been rather to look with much more favour upon a large holding of gold than formerly, and that now the position is this—that if we hold a sufficient supply of silver according to the formula adopted a few years ago, that is to say, if we have 24 crores in all, 18 crores being in the currency reserve and six crores in the gold standard reserve, at the beginning of the busy season, and if we have not less than 17½ crores in the two combined at the end of the busy season, of which at least 15 crores would be in the currency reserve—subject to that, and to having 14 crores, as at present it is, invested, the amount of notes issued against gold may increase automatically to any extent that gold flows into the country in the course of trade

1680 The gold which is held in London in the paper currency reserve is, I understand, earmarked at the Bank of England, is that so?—Yes

1681 What is the precise process by which that is effected?—We write a letter to the Bank of England asking them to set aside a certain sum amounting to so many hundred thousands of sovereigns to a deposit account of the Secretary of State called the gold deposit account of the paper currency reserve. That is against the Secretary of State's cash balances, of course. Then we at once inform the Government of India that that has been done, so that simultaneously they will issue notes against that sum so set aside

1682 Does the bank make any charge for that?—Not for the actual process of earmarking, but they make a small charge of ¼d per cent per year for holding the gold. That is all they charge.

1683 Have they always made a charge?—Yes. I think at first when the amount held was smaller they charged ½d, then when the amount was increased to about five millions and it was arranged that the usual holding should be as large an amount as five millions, they reduced their charge to ¼d, which has been in force ever since

1684 What do you regard that charge as being payment for? Is it for the cost of storage room, or what?—Storage room, and, I suppose, safe custody

1685 I think I have seen it suggested that the presence of this earmarked gold in London is really taken into account by the City and by people who are responsible for the London gold reserves generally, and that the earmarked gold is regarded as a possible source of relief in a crisis here, what do you say to that?—I think that is rather an alarmist impression. I suppose the suggestion is that, if the Bank of England reserves of gold were very short, the Secretary of State might conceivably agree to release gold held by him at the Bank of England against an equivalent credit to his cash balances. The result would be equivalent to a remittance of Treasury balances from India to England against a corresponding transfer of currency reserve from England to India. The Government of India would have to transfer from their Treasury balances to their currency reserve a sum exactly equivalent to the sum transferred in the converse direction here. I do not think there is any reason to fear that any such transfer would be made between the Treasury and the currency reserve unless it could be justified in the eyes of the Indian public as being in the interests of India.

1686 Then reference has been made to a reserve of ingots?—The ingot reserve was a reserve that was held for a certain time in India in the shape of silver ingots which had gone through certain stages of preparation for coinage but were not coined. This reserve was held in a shape in which it was convertible into rupees at about five days' notice, and it was held as part of the currency reserve, consequently notes were issued against it, at the rate of 15 rupees to each 1½ worth of silver. I confess I do not quite appreciate the value of this form of reserve, and it was superseded in 1906 by a reserve of coined silver, namely, 600 lakhs of rupees, being held outside the paper currency reserve, that is, in the gold standard reserve

1687 Then there is no ingot reserve to day?—There is no ingot reserve now

1688 In paragraph 33 of Appendix VIII you quote from the financial despatch to the Secretary of State, which says "From first to last our only practical difficulty has been the timely provision of rupees, and notwithstanding various improvements of method that difficulty still remains, and as recent experience has again shown, it constitutes a real danger" (page 245)?—That expressed the Government of India's view of their difficulties

1689 How did that arise?—I think it was in this way. The Government allowed themselves to get very dangerously short of rupees in 1900. As you know, the policy was, after the closing of the Indian mints, to refrain from any new coinage until the silver reserves had run down quite low, and that was persisted in until 1900. Then the supplies were found to be seriously short, and coinage had to be undertaken in a hurry and to a large extent. At several other times between 1900 and 1906, when that passage was written, although the stock of rupees in the currency reserve was not excessively low, the drain on it was sufficiently severe to create nervousness and apprehension in commercial circles as to the sufficiency of the stocks. Perhaps I might say that the difficulties of the Government of India were as much on account of the apprehension of their reserves falling too low as upon finding those reserves practically and actually too low

1690 Has there ever been any actual difficulty in supplying the demand?—I think in 1900 there actually was

1691 But not since that time?—Not since that time. Sometimes the drain of rupees out of the currency reserve has been so rapid that it has led

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to apprehensions that there might not be enough rupees

1692 The demands on the currency reserve are very uncertain, are they not?—They are very unequal, that is to say, in a season of very active trade there is a very large outflow of rupees during the active months of the year, and a partial return during the dull season, on the other hand, in a season of bad trade like 1908-9 there is nothing but a return of rupees from circulation the whole time, so that you get a very great and excessive accumulation, as I have set forth in my note, of rupees

1693 Owing to the large restriction in the currency brought about by natural causes?—Yes

1694 It has been suggested that the opening of a central bank for India and the transfer to it of the management of the paper currency would be an improvement, have you anything to say as to that suggestion?—It is a very large question, and I feel great diffidence in expressing an opinion upon it. It seems to me that some of the arguments that were urged by Mr Wilson in favour of a currency managed by the State perhaps still hold good, such as the view that you would not get in India a bank with a very large capital capable of earning a profit and large enough to be entrusted with this very large and growing currency. The amount of currency note circulation in India has now got up to 69 crores, which represents 46 millions in sterling, if this goes on it will very soon be as large as the whole note issue in this country. It is a very large circulation indeed.

1695 Supposing it were possible to create a central bank of sufficient strength to bear that responsibility, would you see any advantage in its being transferred to such a bank?—I think that rather raises the question whether the present system is defective, and what are the defects in the present system. Perhaps the Commission will hear more evidence on that point.

1696 I was putting my question to you rather as an administrator. Do you think that the Secretary of State would be glad to be relieved of a portion of the responsibility which now falls upon him in these matters?—I am not sure, I hardly think that he would. I have seen a central bank advocated rather as a means of restricting the flow of gold into India, and that is a point of view that I cannot understand exactly, because though I can understand that extended banking facilities would economise the use of gold in India perhaps, I do not see how that could check the influx of gold into India which was required by the balance of trade.

1697 From what you have said it is clear that the use of notes has been very much extended in India in recent years?—Yes, very much.

1698 The extension has been almost in geometric ratio?—It has.

1699 That is all to the good?—I suppose that is all to the good. I think it has been very largely due to the universalisation of some of the denominations of notes, making them encashable outside their own circle.

1700 Are they now encashable over the whole of India?—They are with one or two exceptions. There are one or two notes that have not been universalised yet.

1701 Now I want to ask you some questions with reference to something you said this morning. You have just told me that you consider it an advantage to have a large note circulation?—Yes, I do.

1702 This morning you said in reply to Sir Shapurji that the Government of India and the Secretary of State had no desire to discourage the free influx of gold into India?—That is so.

1703 In answer to Sir Ernest Cable you went a little further, and I think you said that you would wish everything to be done to encourage gold to go into circulation?—Into circulation, yes.

1704 Why? You have a paper currency and you have a silver token currency, and you say it is very desirable that the paper currency should be increased as much as possible, then why do you want to increase the gold currency?—Because in India I go on the

idea that so far as gold might displace rupees in circulation, the exchange would be on a sounder basis.

1705 That would only be the case if the gold which was in circulation was available for the support of exchange in a time of crisis?—That is so.

1706 Does your experience lead you to think that it is so available?—Certainly the experience of 1907-8 and 1908-9 does not show that it was used to any large extent for that purpose, but one cannot help hoping that if it became more widely in circulation it would serve that purpose.

1707 A great deal of gold was issued in that time probably through the Treasuries?—A good deal was issued, but the Government of India found themselves obliged to restrict the issues, as the drain upon their gold reduced it to such a very small quantity that they were not able at one time to meet all the demands upon it.

1708 I think we have had it in evidence that over 4½ millions was actually issued?—That is so.

1709 And that not more than a quarter of a million was exported?—I think that is so.

1710 Would it not appear from those circumstances that the gold which is issued in a time of crisis does not support exchange?—Yes. That was rather the experience of 1907-8.

1711 There is always a certain tendency to hoard the precious metals in India, is there not?—Yes, there seems to be.

1712 Does the history of that crisis and of the dealings in gold at that time, support the idea that in a moment of crisis the tendency to hoard is even greater than usual?—I do not know, I am not sure that the evidence shows that.

1713 At any rate, it does show that as far as it can be traced very little advantage was derived at that time for the support of exchange from the gold in circulation?—Yes.

1714 And that the gold which had gone into circulation had either remained in circulation in India or was hoarded?—Yes.

1715 But was not used to support exchange?—That is so.

1716 Do you still think that it is of real importance to increase the gold circulation in the hope of supporting exchange?—I cannot help thinking that the more gold supersedes silver in circulation, the smaller is the necessity for coming silver and the whole circulation gets more nearly on a gold basis. Then any coming of silver, one must remember, depletes our resources of gold which we hold for the support of exchange, that is to say, if we buy silver to be coined into rupees by directly taking out gold from the currency reserve here, that directly weakens our gold resources, on the other hand, if we pay for the silver by the sale of Council Bills, that has, I think, the same effect, only in a more gradual way, because the larger our drawings to pay for that silver, the less gold will go into India for some time.

1717 Of course at a moment of crisis like that, the currency would be restricted, naturally?—I do not think that the currency was so very much restricted at that period, because silver came back very largely from circulation into the reserve.

1718 The amount of silver in circulation would be less at a moment of crisis than it had been in the last prosperous year before?—Yes, the amount in circulation would be.

1719 Therefore, the Secretary of State would not be buying silver at that moment?—No.

1720 Did not the answer you gave me just now depend upon the assumption that the Secretary of State would be buying silver at that time?—I did not mean that he would be buying in a crisis like that. I meant that the greater the extent to which the sovereign supersedes the rupee in circulation the smaller will be the general need for the coinage of rupees, and the less will be the permanent perennial need for coming more rupees.

1721 On the other hand, the more the sovereign goes into circulation and displaces the rupee, the less

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gold you will have immediately available in your paper currency reserve?—Yes, that would be so

1722 Would not any advantage that you get from the greater amount of gold in circulation be counter balanced by the disadvantage of having less gold immediately available in your reserve?—It looks as if it would be so

1723 Is not gold in your paper currency reserve of greater use to you, at any rate, for the maintenance of exchange in a time of crisis than gold in circulation?—I must admit that that seems to be so

1724 Thinking the matter over, do you still hold that it is to the interests of the Indian Government to induce people to put gold into circulation?—I would not like to say it was to their interest to induce people to put gold into circulation exactly

1725 I quite understand, you would desire to give them whatever they want?—To give them every facility, as, in fact the Government does now

1726 Do you think on reflection that it is better for the Government of India and for Indian interests if they take gold out, or if they take silver?—I must say I am not quite convinced that a large quantity of sovereigns in circulation would not be a good thing if the balance of trade is sufficient to maintain a large stock in the currency reserve as well

1727 (*Lord Faber*) Pursuing the argument of the Chairman at this moment as to what I would call the different kinds of money, I suppose you will agree with me in thinking that there are practically four kinds of money in use now—(1) silver, (2) gold, (3) notes, (4) best of all, cheques?—Yes

1728 Do you agree with me in thinking that the worst of these is silver, because it is so very bulky, and that if you have to pay everything in silver it is not convenient for trade, and therefore gold is better than silver because it is much less bulky?—That is so

1729 Notes, again, are better than gold, because notes are handier and it saves the wear and tear of the gold, and you can cover the notes?—Yes

1730 Then again there is the cheque, which is better than everything else, and is the system we have at home practically?—Yes

1731 So that really one of the arguments in favour of gold as against silver is that it is much more easily handled?—Yes

1732 I suppose the very fact of earmarking gold and advertising it as being ear-marked places it outside the market at home, and the market knows it?—Certainly

1733 (*Sir Robert Chalmers*) What profits do you make on an average from the note issue of the Government of India?—Do you mean from the invested reserve?

1734 What profit is there on the issue taken as a whole, net?—The receipts consist almost entirely of the interest on the investments. The invested amount is 14 crores, that is to say, 9½ millions sterling. I cannot say exactly at what prices all those securities have been bought, so anything we say would have to be a rough estimate. In the year 1911–2 the receipts amounted to 306,902*l.*, the charges to 155,536*l.*, and the net profit to 151,266*l.*

1735 Anyhow a substantial profit is made from the note issue which is in the hands of the Government?—Yes

1736 Were the issue handed over by the Government to a bank, with that presumably would go the profit in whole or in part?—Yes

1737 Do you see any particular reason for handing over that profit?—Personally I must say I do not

1738 Now about the securities, in the main they are rupee securities in India, are they not?—Yes

1739 Supposing, which Heaven forbid, there were a run and people wanted actual legal tender coin in lieu of their notes, do you conceive that it would be possible to realise to any large extent in India the Indian rupee securities held against the note issue?—I am afraid any very large realisation on the Indian market would depress the price very seriously

1740 Conceivably you could imagine the case where you might not be able to realise them at all?—

That is an argument so far as it goes in favour of holding the larger part in sterling securities

1741 That question leads to the general question of realisability in the great hour of need, and that question leads to this—that you want as regards India or any other country to have your securities in the greatest international market?—Yes

1742 You take that view, do you?—That is the conclusion, I think

1743 Historically, you may not be very familiar with this, or you may, but I suppose Mr Wilson put the fiduciary issue into Indian Government securities on the analogy, with which he was very familiar, of the Bank Acts of 1844 and 1845?—Yes, and also, I think, the argument weighed with him very much that the purchase of Indian securities from time to time would improve the credit of the Government of India in the Indian markets

1744 Would you go so far as to take the view that the issue of notes means a profit, and that there is in theory no more reason why a bank should issue notes to profit than it should issue token coins at a profit?—I am hardly prepared for that question

1745 (*Sir Ernest Cable*) Did I understand you to say in answer to Lord Faber that you considered gold more suitable for the needs of the people of India?—No. Lord Faber's point was that gold is more portable and less bulky than silver, and that one must admit. If you ask whether silver is on other grounds more suitable for India, of course there is this to be said—that the Indian people want a small denomination of coin. One great difficulty in the way of the sovereign going widely into circulation is that it is so large a coin and of such high value. They want a smaller unit

1746 I was only trying to bring out the point that the great bulk of the transactions in India are very small?—That is so

1747 Even down to, we will say, 4*d.*, which would maintain a family for one day?—Yes

1748 Therefore silver is more suitable for the internal needs?—It is more suitable in that way, and so would be notes of small denomination, particularly the 5 rupee note

1749 So there is no particular need to encourage the use of gold in India for the benefit of the people?—From that point of view, no

1750 Of course the institution of a gold mint in India would be bound to encourage the use of gold if it was successful?—Yes. I do not, however, think that a gold mint would greatly increase the supply of sovereigns in India

1751 (*Mr Keynes*) Recent legislation, by making notes up to 100 rupees universal legal tender, has almost entirely abolished the necessity for the old circle system of issue, has it not?—I should hardly think that

1752 What purposes does it now serve?—I do not see exactly how you could dispense with the circles of issue. You have not got absolute universalisation of all the notes, as a matter of fact

1753 Now that they are universal legal tender up to 100 rupees, it would make very little difference to universalise them completely?—Yes

1754 What purpose does the circle system still serve?—Is it not an advantage? I should have thought it was an advantage to have a comparatively large number of different offices from which a note could be issued

1755 Certainly, I was not meaning to limit the number of offices, I was suggesting that you should abolish the division of the offices into different circles—that you should make of India one circle, but that you should retain the existing number of offices, would there be any objection to that?—I am hardly prepared to offer an opinion on that

1756 No objection occurs to you at the moment, does it?—No

1757 The demand for currency in India is very seasonal, is it not?—Yes

1758 In other countries a seasonal demand is met by increased cheque currency or note currency against temporary security, is it not?—Yes

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[Continued

1759 For instance, in Germany or in France bills are discounted by the State banks and notes issued against them, are they not?—I understand that is so

1760 But in India nothing of the sort exists, so that there is complete inelasticity?—Yes

1761 Would you be of opinion that this was partly responsible for the high bank rate at certain times of the year?—I am not sure that that is so, because, as I have said before, the note issue does really expand with great elasticity in times of active trade as a consequence of the influx of gold

1762 When more notes are issued, the Government only changes one form of currency into another, does it not?—Yes

1763 But it does not increase the total volume of currency?—Surely the volume of currency is increased by imports when the sovereigns come in, or are imported from abroad

1764 No doubt the import of sovereigns increases the currency, but the changing them into notes does not increase it, and the issue of notes against sovereigns does not increase the volume of currency?—I should have thought it would, myself

1765 I do not think we are in disagreement, I am merely saying that the volume of currency cannot be increased except in so far as people bring fresh currency into the country?—That is so

1766 Whereas in France or in Germany there is another way of increasing currency, namely, by issuing more notes against temporary security?—Yes

1767 I am asking whether the absence of that provision in the Indian system may be partly responsible for the high rate of discount at the busy season?—It may be so

1768 If notes could temporarily be issued in the busy season against some temporary security, the volume of currency would be increased and seasonal stringency might be diminished?—That is so

1769 (Sir Robert Chalmers) Subject always to the use of cheques?—Yes

1770 (Mr Keynes) You are assuming the possibility of the increase of cheques is not very great in India?—Yes

1771 (Chairman) As to the part which cheques play in the Indian currency, are they an important factor?—They are not a very important factor, I fancy but other people can much better tell you about that than I can

1772 (Mr Keynes) Outside the Presidency towns, I should be right in saying, should I not, that there is no means at present of increasing the currency except by importing it from abroad?—Yes, by the natural influx of gold, or by the artificial import of silver

1773 Would you be in favour of some change in legislation by which the note issue could be used to supply the necessary elasticity after the French or German model?—As I say, it is not a question on which I feel able to offer any very definite opinion. I think you will always have great fluctuations in the Indian bank rate—an 8 per cent rate in the winter and a 3 per cent rate in the summer seems to be a regular seasonal thing

1774 At present?—Yes, at present, formerly the rates used to be very much higher

1775 I meant by "at present" under the existing system?—Under a similar system formerly the rates were very much higher. Under the present system of the free influx of gold, and the free expansion of the note circulation, the fluctuations in the bank rates are very much smaller than they used to be

1776 I might get, perhaps, at the same point in another way. The fundamental principle which underlies the paper currency reserve was adopted at the time when the Bank of England note system was orthodox, and where there was little or no experience of any other system. Is not that so?—Yes

1777 While the Indian system has since lapsed, if I may say so, into something rather different, and though some modifications have been deliberately introduced from time to time, the general principle underlying the note issue has never, in the past 60 years, been fundamentally reconsidered?—No, I suppose not.

1778 There is now a great deal of experience drawn from various European countries of note issues regulated on quite different principles?—Yes

1779 If the principle of the note issue in India were rather radically altered in the light of European experience, might not that much needed element of elasticity be acquired in some degree?—I suppose that might be so

1780 These possibilities have not been considered, but, *prima facie*, there are advantages which might conceivably be attained by some such modification?—I think that is so

1781 You would acquiesce in that view?—Yes

1782 (Sir Robert Chalmers) You cannot use your credit more than once, that, perhaps, is a general proposition you might agree to?—Yes

1783 If you use it in the form of notes, you cannot use it in the form of cheques?—I suppose that is so

1784 (Sir Shapurji Broacha) At present the note circulation is 68 or 69 crores?—Yes

1785 The reserve against that is composed of 14 crores of securities, 16 crores of rupees and about 38 crores of sovereigns?—That is so

1786 At present there is no restriction to give gold against ether notes or rupees, is there?—There is no restriction

1787 Of the 38 crores of gold, you have 9 crores in England?—About that

1788 And they are ear marked?—Yes

1789 If they want those 9 crores back in India, is there any reason in it?—I see no reason why India should want those 9 crores. India has quite an abundant stock in the currency reserve on which they can draw freely

1790 There can be no reason for asking for the 9 crores, unless there is a want of confidence in the Government of England?—Yes

1791 They could not make any use of it so long as it is ear-marked, whether it is in India or here?—No, it would serve no other purpose than as security for those notes

1792 I suppose the whole debt of India, including railways, is about 500 millions?—I dare say you are right

1793 Of which only 30 millions is held in India?—More, I think. The total Government debt including railway debt is about 274½ millions, of which nearly 88 millions are held in India

1794 India is a debtor country. Do you know that Russia has 60 millions in gold here and in France because of her foreign debt?—I dare say

1795 And so has Japan lodged her gold here because of her foreign debt?—Yes

1796 I suppose England holds all except about 80 millions of the 500 millions of the debt of India, and Indians hold not more than 30 millions, so I think it is right that a good portion of the gold should remain in England. The only reason that could be advanced for asking to keep the gold in India would be a sort of want of confidence—nothing else?—Yes

1797 I see in to day's "Times" \* that you have put some gold standard reserve money into securities during the last month?—Yes, there has been a change of investments

1798 I thought we had an assurance from the Secretary of State that he was going to put 5 millions into liquid gold?—He is doing so

1799 So he has not commenced going back?—Not at all. Any change in the investments that has been made in the last month or two has been merely an exchange from one investment into another, and no part of that stock of gold which is in process of accumulation at the Bank of England has been taken out. It is the intention of the Secretary of State to go on increasing that from the profits of coinage and from the interest on securities held, until it reaches 5 millions

1800 Can you tell me any possible advantage India would derive by forcing gold upon them so long as a rupee is 16 annas?—I do not see any object in forcing gold upon the people

\* Thursday, June 12th, 1913.

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Mr F W NEWMARCH

[Continued

1801 Then why did the staff of the Secretary of State and the staff of the Government of India say we should like to see the gold better circulated?—I think there is a difference between those two points of view—liking it to be better circulated, and pressing it upon the people. I think there is no desire to press it upon the people.

1802 I think at present it is not within the bounds of possibility, but suppose a gold currency were made in India, that would mean that you were to give gold against all demands?—Yes, it would.

1803 I think you know that there is a tremendous quantity of rupees in India which have been coined in the present century?—Yes.

1804 Do you think if people were to tender them against gold, the gold would suffice?—No.

1805 People say, "Let us have a gold currency," but a gold currency means that the Gresham Law would come into being, that is to say, that the cheaper metal would drive away the dearer metal, because you know gold is better, and it is better liked every year in India?—Yes.

1806 But we have not a store of gold at present to make a gold currency?—That is so, we have not.

1807 (Sir James Begbie) You gave us particulars of the coinage of silver last year, and in section 1 of paragraph 29 of Appendix VIII (page 243) you say there was a coinage to the extent of about 1 575 lakhs of rupees carried out last year, could you give us the quantity and average cost of the silver, and how the rupees were coined or disposed of and found their way into the reserves?—Yes, I could. If you would like a statement laid before the Commission I will put it in\*.

1808 (Mr Gillan) In paragraph 6 of Appendix VIII (page 240) you say the invested portion of the reserve is now 14 crores of rupees, of which 10 crores are represented by securities of the Government of India, and 4 crores by securities of the "British Government." In dealing with the proportion of sterling and rupee securities the Government of India in their letter of 18th August 1904, I think gave certain reasons for increasing the sterling investment which appear in Note II to Appendix VIII (pp 255-74)?—Yes.

1809 They said that in the event of a serious financial or political crisis occurring in India the rupee securities would inevitably be depreciated and difficult to sell, "while it is probable that sterling securities would not be so seriously affected owing to the greater capacity and solidity of the London market." They also said "the position of sterling securities would carry the further advantages that the proceeds would be receivable in London, i.e., in the market in which if more rupees were required we should have to buy silver, and in which also if gold were required for strengthening exchange it would make itself felt." Do you agree with those reasons?—I think there is great force in them.

1810 Do you think this proportion, of 10 and 4, which at present obtains is a good proportion, or would you be inclined to increase the sterling investments?—I would say the sterling portion was large enough at present. After all, it is very much a question for the Indian authorities, I think, to consider, but my own personal opinion would be that a further increase might be made to the rupee portion.

1811 The total investment is 14 crores, how is that determined—how is the limit fixed?—The initiative is generally taken by the Government of India. They write home to the Secretary of State after consultation with the Presidency banks, and they compare the ratio borne by the invested portion of the reserve to the average total circulation gross and net of the three previous years, or the two previous years, with the ratio borne by the one to the other at the date when the last increase of the invested portion of the reserve was made. And then they usually suggest an increase to bring the invested amount up to something like the same proportion of the whole that it bore when last the change was made.

\* This statement was not eventually asked for.

1812 In paragraph 46 of Appendix VIII, page 247 you say, "a further increase of the invested portion of the reserve will no doubt soon become practicable," going on the principle that has been followed in the proportion of investments to the total circulation, it would be possible, would it not, to make an investment now—immediately?—Yes, I should say so.

1813 A considerable investment?—The present proportion of the investment is very low indeed, it is only about 20 per cent.

1814 That would be immediately practicable?—I should say so.

1815 Would you prefer that that should be invested in some permanent form such as is the case at present, or should it be maintained in order to be available for lending out in India?—I should think the preferable course would be, that it should be invested either in rupee securities or else in sterling short dated securities in this country. I think that the Secretary of State would not be likely again to adopt the practice that was adopted some time ago of investing in Consols or permanent securities, but he would prefer short-dated securities, if the securities were sterling ones. I think there is great deal to be said in favour of adding to the rupee investments.

1816 From what you said to me previously, I understand that you do not think it is desirable to increase further at present the sterling investments?—No. My private opinion rather would be in favour of adding to the rupee investment.

1817 I think Sir Robert Chalmers put it to you that there was a certain danger in adding to the rupee securities, and you agreed with him?—Yes, but one cannot overlook a consideration which I put in this way. Having regard to the large number of notes always held by the Government, I think the danger of a run on the reserve of such dimensions as to exhaust first the metallic reserve, then the sterling securities, and then to trench on the rupee securities is so remote that the danger of adding to the rupee-invested portion is not very serious.

1818 What is the particular advantage in your view of adding to the rupee security instead of to the sterling security?—My impression is that it would be more popular with the Indian people and that it would rather improve the market for rupee securities.

1819 The Chairman asked you what happened to the gold that was taken out of the country in 1907-8. There are figures in the Comptroller-General's Report for 1910-1, which include the receipts in sovereigns of Post Offices and Railways (page 13). I do not know if you have got that Report?—No, I have not that by me here.

1820 Those figures show that up to 1908-9, there was a matter of a couple of millions received in the Post Offices and railways jointly, and that it amounted to about 300,000 in 1909-10. What conclusion would you draw from that, taking these receipts as an indication of the amount of gold that was in circulation and in use as currency?—I suppose the indication rather would be that gold went into hoards.

1821 You said in answer to the Chairman that small notes up to 100 rupees are now encashable all over India?—That is so.

1822 That means really that they are encashable at eight centres?—Yes.

1823 The legal obligation to give coin for notes obtaining only in those eight places?—Yes.

1824 There is a liability, is there not, for the notes to go to a discount at any other place?—I was not aware of that.

1825 Since there is not a legal obligation to pay cash for them in any other place, that is what one would expect is it not?—I suppose it is, but I have not thought of that.

1826 Would it not be a favourable thing for the note circulation if the facilities for encashment were increased and if there were a large number of centres where cash and notes were freely exchanged?—Yes, I suppose it would.

1827 Then there is the point which Mr Keynes put to you about the elasticity of the note system,



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Mr F W NEWMARCH.

[Continued]

the Indian system at present is entirely wanting in elasticity, is it not?—Perhaps it is going rather far to say it is entirely wanting in elasticity if it expands so readily with the influx of gold, but I see Mr Keynes' point

1828 You agreed, I think, with the Chairman that the increase which has taken place in the note circulation of recent years has been a good thing?—Certainly

1829 Considering these two points that I have put to you about the places of encashment and the introduction of some method of elasticity, does it not appear to you that a further increase in the gold circulation would probably be more easily obtained by means of a bank than by means of a Government department?—It is rather a question of the method to be adopted than of the particular agency employed to do it

1830 I was asking you your opinion, which do you consider to be the most efficient agent for the purpose in view?—Personally, I do not quite see,

assuming that the policy were decided upon, that the one agency would be more favourable than the other

1831 Sir Robert Chalmers asked you a question about the profits that were made out of the paper currency and about handing over those profits to a bank or banks, the question of revising the agreements with the presidency banks is at present under consideration, is it not?—I believe it is

1832 It is the case, is it not, that we leave with the Presidency banks at present balances very much larger than we are compelled under agreement to leave with them?—Yes

1833 And that those balances are left free of interest?—Yes

1834 So that the whole question is one of remuneration?—Yes

1835 In connection with that this matter of the profits on the notes might be considered at the same time?—Yes

1836 It is a part of the same general system or arrangement?—Yes

The witness withdrew

At the India Office, Whitehall, S.W.

SIXTH DAY.

Friday, June 13, 1913.

PRESENT

THE RIGHT HON AUSTEN CHAMBERLAIN, MP (*Chairman*)

Lord FABER  
 Sir ROBERT CHALMERS, KCB  
 Sir ERNEST CABLE  
 Sir SHAPURJI BUBHOEJI BROACHA  
 Sir JAMES BEGGIE

Mr ROBERT WOODRUM GILLAN, C.S.I.  
 Mr HENRY NEVILLE GLADSTONE  
 Mr JOHN MAYNARD KEYNES  
 Mr BASIL P BLACKETT (*Secretary*).

Mr WALTER BADOCK, C.S.I., called and examined

1837 (*Chairman*) You are Accountant-General at the India Office, I understand?—That is so

1838 You have handed in to the Commission two memoranda, one under the head of The Placing of Cash Balances on Loan or Deposit, and the other regarding the authority required for payments made at the India Office and the system of control exercised in respect of them I propose to include those in our published evidence?—That will be my wish (see Appendices XI and XII)

1839 Turning to the memorandum on The Placing of Cash Balances, Appendix XI, on pages 315-6 you give the list of borrowers approved by the Secretary of State in Council on 31st March 1913, will you tell me how that list was made up?—The list of applications of approved borrowers is not made up by solicitation on the part of this office. We never ask anyone to join it, but applications can be made by any firm of suitable standing and resources. These applications are ordinarily made to the broker, the broker would make such inquiries as he thought suitable and add any opinion of his own, and would forward the application to me. I should then transmit it to the Chairman of the Finance Committee, who would also make any inquiries that he thought desirable and bring his own knowledge to bear on the matter. Then he would make a recommendation, which would be sent to me with any recommendation that he might think it suitable to attach. I should then prepare a minute which would go to the Under Secretary of State, and would be laid before the Finance Committee and before the Secretary of State.

1840 When you say Under Secretary, I presume you mean the Permanent Under Secretary?—Yes. It is the usual routine of the office that papers for Committees of Council are sent to the Permanent Under Secretary first. In recent cases an application has gone to the Under Secretary first, then to the Finance Committee, and then after approval by them has been approved by the Secretary of State in Council

1841 On whom do you consider that the actual responsibility, the practical responsibility, for the selection or rejection of a name rests, under those circumstances?—I do not like to discriminate between the actual and practical, but, of course, very great responsibility rests upon the expert advisers to the Secretary of State. The decision is the decision of the Secretary of State in Council

1842 Is the submission of a name to the Secretary of State in Council more than a form, if it has been approved by the other authorities you have mentioned?—I should not like to say that was the case, because it is open to any member of the Council who has any personal knowledge to make any comment he chooses to make, and to take any action he may think fit in support of his opinion.

1843 It would, I presume, naturally be unlikely that criticism would be heard at that stage?—I should say it was unlikely. I might add, perhaps, that there are two, and there have been for many years two, City members on the Council, so that it is not solely the decision of one City member in as far as it is a decision at all.

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Mr. WALTER BADOCK, C.S.I.

[Continued]

1844 Is the Chairman of the Finance Committee always a City member?—As far as my recollection goes it has been so, I think I can certainly say for 30 years it has been so.

1845 He is appointed by the Secretary of State, is he?—The present chairman has been I am not quite sure what the practice as regards that matter has been. I happen to know how Sir Felix Schuster was appointed, but that perhaps I think you had better ask of the Permanent Under Secretary.

1846 Do you happen to know for how long the appointment is made?—No, I do not.

1847 (Sir Robert Chalmers) Are you speaking in answer to the Chairman about the appointment of this commercial member as Chairman of the Finance Committee?—I understood the Chairman to put that question to me.

1848 You would be able to say what is the term of appointment to be a member of the Council?—Yes, that under the present Act is seven years.

1849 (Chairman) Are the members of the Finance Committee necessarily members of the Council?—Yes, it is a committee of the Council. I might explain perhaps that in recent years, since we have had large investments to make of the Gold Standard Reserve and the Paper Currency Reserve, and financial transactions on a larger scale than hitherto, it has been necessary sometimes to delegate the powers of the Secretary of State to an individual, because the offers are offered and they have to be accepted or rejected at once, and transactions must be considered on their merits and decided immediately, being financial matters. For that purpose I know the Finance Committee and the Secretary of State delegate their powers to the Chairman or to the Chairman and one or two others, and the Chairman, I know, has recently been nominated for that purpose, but what took place before Sir Felix Schuster's time I cannot say.

1850 I presume that any transactions of that kind authorised by him would be reported at the earliest meeting?—Undoubtedly.

1851 When was the present practice instituted, under which applications come before the Finance Committee and the Secretary of State as well as before the Chairman?—As you know, this system was inherited from the East India Company. It was treated for many years in rather a confidential way, as, naturally, in regard to the information which a City member might have about firms and so on, it would not be convenient always to put all he knew on paper. He was especially qualified to deal with these matters, and until about 1912 the Chairman used provisionally to admit firms to the approved list, and loans were made to them and that was approved by the Finance Committee. Every detail of every loan has always been put before the Finance Committee weekly, and the appearance of a new name would at once be noticed and, if it was approved by the Committee, sanction to the admission of the name was implied of course. In 1906 the full borrowing list was submitted to the Finance Committee quarterly, and new admissions were recorded or any changes in it from the previous quarter, and it was formally approved. Not until December 1912 was the approval of the Secretary of State in Council given to the full borrowing list. The present procedure, as I have said, is to put every transaction before the Finance Committee.

1852 Have you any special reasons for the change?—Yes.

1853 Was it due to the magnitude of the then operations?—It was done really because it was desired to indicate that the decisions taken and the approval given were not those of a committee or an individual but those of the Secretary of State in Council, it was desired to make that more clear.

1854 I understand from paragraph 3 of Appendix XI that loans are only made in sums of 50,000*l.* or in multiples of 50,000*l.*?—Yes. That was inherited from the East India Company. I have looked back into their affairs, and I find that they practically never lent less than 50,000*l.* and multiples of 50,000*l.*, there were one or two cases where they lent 25,000*l.*, but I cannot trace

any loan of a smaller amount. We find it very desirable to maintain that limit, because, in the first place, it ensures that firms who can produce the requisite amount of security are firms of a certain standing who would not be likely to be in difficulties in any ordinary movement of the money market. Of course in our loans the very first consideration, more important than any question of interest, is the question of the availability of the principal and the security. In the second place, the 50,000*l.* minimum is held because it keeps away the applications of small firms who might be willing to pay a high rate of interest and to whom it would not be quite safe to lend.

1855 I think you do suggest in your memorandum that occasionally a little money remains for a short time unlent?—Yes.

1856 Of course it does not amount to 50,000*l.*?—That is so. We consider the points that I put before you, namely, the security and the availability of the money, to be more important than investing the balance right up to the hilt. If we took small sums to one firm, and lent, say 25,000*l.*, so as to get nearer to our minimum balance, we could not very well use the argument that we only lend in blocks of 50,000*l.* when we receive applications from firms that it would be undesirable, perhaps, to put on the list.

1857 The only question that occurs to me is whether, when you have an approved borrower of 50,000*l.*, you might in such a case place an additional 25,000*l.* with him instead of saying that you would place another 50,000*l.*?—It might be so, but then we could not say, as we do say now, that we only lend in blocks of 50,000*l.* and multiples of 50,000*l.*

1858 You explain in paragraph 4 of Appendix XI how you arrive at the period for which you can afford to lend money, is the period of six weeks the absolute maximum period for any loan?—There is no maximum laid down by the Secretary of State in Council. It has simply been a practice which has been adhered to throughout, except in the special time when we had very large balances, when the excess over anything that could possibly be required in the immediate future was put on deposit at the banks, otherwise the six weeks' maximum has been maintained throughout. It has this advantage first, that of course we can, in emergency, call the whole balance in very rapidly, and secondly, if we hear rumours about any firm we are able to call the money in much more rapidly than we otherwise could, and possibly save ourselves from loss.

1859 It would naturally happen, I suppose, that in fact sums remain for a very much longer period with a single borrower, being renewed and renewed?—Undoubtedly, but only when he will pay the highest rate of the day. We unhesitatingly recall if the holder of a loan will not pay the rate which others will pay.

1860 You give us a list in paragraph 5 of Appendix XI of the present securities which the broker is authorised to accept for those loans, and I see in the correspondence on page 313 of the Appendix that that list has recently been extended?—That is so.

1861 Is that list based on any general principle?—Yes, practically it rests on the provisions of the Government of India Act, 1858. That Act laid down the full financial procedure of the Secretary of State. I have a copy here, and perhaps you might like to look at it while I am explaining its effect. If you will look at section 45 you will see that the Act raises in the books of the Governor and Company of the Bank of England an account called the Stock Account of the Secretary of State in Council of India. The history of that is that at the time this Act was passed these loaning operations were going on as now, and the East India Company was the holder of very similar securities to what we are holding now, namely, Consols and Government Annuities. It was directed by this Act that all such securities should be transferred to the Stock Account at the Bank of England and all such securities were so transferred. The Act provides, in section 48, that bearer securities shall be held at the Bank of England, and another section

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Mr WALTER BADOCK, C.S.I.

[Continued]

provides that all cash payments and receipts shall be at the Bank of England. These sections 43 to 48 practically determine the financial procedure of the Secretary of State.

1862 But they do not determine the class of stocks, do they?—Only in this way. The Bank of England cannot transfer any stocks into the stock account of the Secretary of State unless those stocks are transferable at the bank. That practically excludes those which are inscribed at other banks. That has been throughout the restriction which has been placed upon the loans of the Secretary of State, that we take the securities which are transferable, or can be transferred, into the stock account of the Secretary of State in Council of India at the Bank of England. That limits us a great deal with regard to registered securities. The terms of section 48, which deals with bearer securities, are much wider and enable us to include colonial bonds, it would also enable us to include other bearer securities if it was considered desirable. I might point out, too, that part of our system, as I have explained in paragraph 10 of Appendix XI (page 311), is that as a protection, I instruct the cashier of the Bank of England not to pay the broker until either the bearer securities have been deposited on the securities have been transferred to the stock account of the Secretary of State at the Bank of England. The cashiers, who act under a power of attorney from the Secretary of State, can only know this if it takes place at the bank, or they can only know it immediately, they can only have direct knowledge of it then. As a matter of fact, I know the cashier, before he pays it, sends for the transfer book from the bank, and sees for himself that another department has made the transfer.

1863 I am not competent to interpret this statute, but looking at the sections to which you refer me, I see that section 45 has a marginal note "Stock account to be opened at the bank," and section 46 has this marginal note, which I think gives a clearer summary of its provisions, "Stocks standing in the name of the company transferred."—That has since been repealed, because it was done.

1864 I do not quite see that that section contains any restriction of the kind that you have mentioned?—There is no restriction, but, on the other hand, there is no authority. All our procedure is laid down by the Act as to where we shall keep all our accounts, and it has been considered that that is probably the intention of Parliament. This Act was passed long ago, before the present market conditions existed, but it has always been held that we should adhere to that procedure, and we have adhered to it from the date of the Act.

1865 You act, as you think, in the spirit of this Act?—In the spirit of it, yes.

1866 Though not absolutely bound by its terms?—That is so. There is no prohibition and there are no statutory powers in this respect, but there is for everything else that we do, and therefore it all hangs together.

1867 Looking at the list of authorised securities given in paragraph 5 of Appendix XI, at first sight it is not a very wide one, and the selection seems to me a little arbitrary, what do you say to that?—Of course it is arbitrary, because we consider it has always been governed by the conditions that we have been speaking about. The list has been added to from time to time, as securities of a suitable character, that come within the terms of the Act, have been created.

1868 What would you say if it were proposed to you to accept the English Trustee Stocks List?—First of all, as far as I can find out, we have never had any application to take any of these securities. The broker tells me that they are not the class of securities that are held by borrowers at all, and we have never, except just for one year or two, when we had those very exceptionally large balances, had any difficulty in lending on the very first-class securities that we have on our list. We have not until this year considered that there is any necessity to extend that list.

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1869 So you would say that the list has been sufficient for your purposes, and that it has not resulted either in any difficulty in finding lenders or in any undue reduction of the rate of interest?—Yes.

1870 I see that the first securities which you mention in paragraph 5 of Appendix XI (page 310), namely, India Debentures, India Bonds, and Guaranteed Debentures of the several Railway Companies, are taken at their par value, while Treasury Bills, Exchequer Bills, Exchequer Bonds, India Sterling Bills, Metropolitan Water Board Bills, and London County Bills are accepted at their market value, what is the justification for that distinction?—That distinction was deliberately adopted because we found that it facilitated the placing of our own bonds, debentures, and guaranteed debentures. Many of the firms hold these securities very largely, because they know that they can readily bring them to us and borrow on them at their par value. There was a time when we borrowed very largely indeed through the Guaranteed Debentures of Indian Railway Companies.

1871 As a matter of security you would not say that they are better securities than Treasury bills, would you?—For our purpose they really are, because if they are left on our hands we can hold them and draw the interest, and when they mature we pay ourselves. If it is a guaranteed debenture of an Indian railway company, we call upon the company to raise debentures to pay us off, if they are our own debentures we discharge our own debts when they mature. So there can be no indirect loss. There would be the inconvenience of holding for a time, but there would be no loss of principal.

1872 *Mutatis mutandis*, does not the same apply to Exchequer Bills and Exchequer Bonds?—No.

1873 You cannot pay yourselves?—No, we cannot pay ourselves, that is the point.

1874 (*Sir Robert Chalmers*) It is a bookkeeping point really, is it not?—It is, but if we cannot realise the money readily we can hold them for a time.

1875 (*Lord Faber*) You would not say that a guaranteed bond of an Indian railway is any better security than a Treasury bill, would you?—No.

1876 *Sir Robert Chalmers* says it is a mere bookkeeping entry, therefore?—Yes, it is.

1877 I should say the security was not as good?—If you had to go into the market to sell at once, of course the Treasury bill would fetch more than the Indian railway debenture, there is no doubt about that.

1878 (*Chairman*) Perhaps the real reason is the one given by you first of all—that it encourages the market to take these securities which you are desirous of placing?—No doubt that is the main reason. It is not merely placing, but renewing, because we have these railway debentures falling due every month. We find we can get them renewed readily by these people because they can borrow on them from us, and from others.

1879 I understand from paragraph 6 of Appendix XI (page 310) that the responsibility for getting the best rate of interest rests with the broker?—Yes.

1880 It rests entirely with him at present, does it?—It rests entirely with him for the time. Of course, any rate he gets is criticised and looked at every week, and any opinion that the committee might have to express on the matter would be communicated to him, but the responsibility certainly rests with him.

1881 By whom is the broker appointed?—That is a thing which only happens very occasionally, and I should not like to say that there is any established procedure in the matter, but I remember the appointment of the last broker very well. The appointment was made by a letter from Lord Kilbracken to the broker after a full consideration of other applications. Lord Kilbracken wrote in the name of the Secretary of State in Council conveying the approval of the Secretary of State in Council.

1882 For how long is the appointment?—The appointment was made for two years originally, and during that period the broker was directed to arrange for a partnership with a firm of stockbrokers to be approved by the Secretary of State. As a matter of

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fact, he entered into partnership within 12 months with Messrs Nivison & Co., and a further letter was then written to him confirming the appointment. The appointment is during pleasure, and can be terminated either by notice from him or by notice from the Secretary of State.

1883 I understand that the broker is paid for his work by percentage on the amount of interest earned during each financial year?—It is a percentage on the interest on each transaction, that comes to the same thing.

1884 What is the present percentage?—The present percentage is 2½ per cent until 5,000l has been reached, and thereafter 1½ per cent.

1885 When was that fixed?—That was fixed in July 1911.

1886 The 2½ per cent on the interest?—Yes.

1887 In Statement No 2 of Appendix XI (page 318) you give us a table which shows the total amount of the broker's commission in each of the last 20 years, I observe that the figures in some years have been extremely high, for instance, they have been three times over 10,000l and once very nearly 15,000l—to be exact, 14,723l?—Yes. I would like to explain that up to 1888 we used to pay a percentage on the amount lent, but then it was decided that it would be much better to pay a percentage on the amount of interest earned. Mr. Bertram Currie, who was then Chairman, was asked what the proper percentage was, and he wrote "The usual charge in such cases is 10 per cent of the interest, but the amount lent on behalf of the Secretary of State is so considerable that a lower scale will probably suffice." A scale of 5 per cent was accordingly fixed, and this was the scale until the death of the late broker in 1903. The old broker's fees for the last three years was 7,000l, 7,600l, and 8,900l. These figures give the measure of the value of the appointment at the time the present broker was appointed. If you look at Mr. Scott's remuneration you will see that for the first five years of his appointment, that is from 1905-6 to 1909-10, the average works out to the present broker at 8,700l a year. That is practically the same figure that his predecessor received during the last three years of his appointment. When it rose in 1910-1 to 16,000l, and it seemed likely that large balances would still continue for some time, the matter was gone into, and Lord Inchcape asked me to interview the broker with him, and a reduced rate was recommended to the Secretary of State in Council. Lord Inchcape gave me permission if you will allow me, to read a brief note that he wrote on the matter. He is a great authority on such questions, and I should think that his opinion would carry more weight perhaps with the Commission than anything I could say. It is not long, and if I might read it, it will put the whole case to you very clearly. This note I might mention, was intended to be used by Lord Inchcape (then Sir James Mackay) in Council, but it was not used, and he gave it to me to be used at any time it was desired. "The Council may be inclined to regard it as somewhat hard to propose to reduce Mr. Scott's earnings by as much as one half, but arrangements of this kind must necessarily in the nature of things be reconsidered from time to time, and the commission earned by Mr. Scott being now so much in excess of what the business was worth when he got the appointment, it is, I submit, not unreasonable to propose an arrangement which will effect a considerable saving to the revenues of India."

1888 What is the date of this letter?—This is dated the 20th June 1911, and the renewed arrangement took effect on the 1st July. It goes on "So far as can be estimated the earnings of Mr. Scott under the suggested scheme will give him an income during the next year of something like 8,000l, the amount which he earned annually for the first three years of his appointment. It is true that his work will be practically double what it was, and that from this amount has to be deducted the rent of his premises and the cost of his staff, but putting these at 2,000l a year he will net annually 6,000l. On the other hand it may be said that this is a large income, but incomes in

"the City are larger than those at this end of the town, and from the City point of view it would not be regarded as excessive, considering the great responsibilities attaching to the work and the enormous value of the securities constantly passing through Mr. Scott's hands. Having been in daily and, I may say, hourly contact with Mr. Scott in arranging the placing of our balances and the raising of our loans for many years, I can speak with some knowledge of the assiduity which he displays in his work. He has to be at the call of the Chairman of the Finance Committee and the Accountant-General every business day and all day, and he never absents himself without leave previously obtained. It might further be said that a salaried man would do the work more cheaply, but I am doubtful if he would do it as well as a man paid by results. On our loans of 20 millions, if we lost even an eighth per cent in interest, that would cost us 25,000l a year, and there is no doubt that we benefit immensely by having a man to do our business who is a partner in a high-class financial house such as Nivison's and in constant touch with the market. I don't know if Mr. Scott will accept the reduced terms proposed, but if we can get him to do so and leave him at the same time valuing the appointment, as I hope we may, if the proposal in the departmental note is adopted by Council, I think the arrangement will be a distinctly favourable one for the revenues of India, and at the same time not ungenerous to a man who has served us well." That letter gives the whole argument of the minute.

1889 (Lord Faber) It is very well put?—Yes, it is.

1890 (Chairman) I agree with Lord Faber that it is very well put, but I confess it leaves me with the impression that the remuneration is very high, in other words, that it is such as would more than attract the men of very high standing and position that you must necessarily obtain for the post, and that it is more than sufficient to reward them for the work which they have to do. I gather from a reference in the minute of Lord Inchcape which you read, that he at any rate had considered the possibility of arranging for a fixed payment?—Yes, it had often been thought of.

1891 I made some inquiries as to the arrangements made by the Treasury with the Government broker, and I find that he receives a fixed payment?—That is not for loaning that is for buying and selling stocks. We have a similar arrangement with Mr. Scott but it is for quite a different thing. I might explain that when I prepared the minute for the Committee dealing with Mr. Scott's remuneration which Lord Inchcape summed up here, the transactions to which you were referring were placed before them, and we were well aware what the Supreme Court was doing and what the Comptroller General of the National Debt was doing. Mr. Scott now has a maximum of 1,500l a year for purchases and sales of stocks. We have a scale which operates according to the transactions, which is on the paper which you have before you, you will find it at the foot. The payments under that scale are not to exceed 1,500l a year. The cases that you put to me are not parallel as the class of business is not the same.

1892 But would not a similar arrangement be applicable to it?—It is possible no doubt, to get a broker at a fixed salary but to get a first class man in that position, with the very great responsibility that our broker has you would have to pay a very high salary, considering the vast volume of business that he does and the responsibility. He must have offices close to the Bank of England because we have hundreds of thousands of pounds of securities every day passing to and from his office to the Bank and the transmission of these things in the City from a distance is risky, and, of course it is an impediment to business too. He has expensive offices and he has a staff, of course, constantly employed.

1893 I think Lord Inchcape calculated that after allowing 2,000l a year for the offices and staff there would remain an average of 6,000l a year?—That

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would depend entirely on our balances. It will not be anything like that if what we budget for is realised. If we start the coming financial year with a balance of about 4 millions, as we budget to do, the broker will not have anything like the remuneration that we are paying him now, in fact, it would not in many cases very much exceed his office expenses. If you look at the early years you will find there were many years when it did not, and the tendency is, and the wish is, to revert to the smaller balances if it is possible. Up to 1800 the maximum figure was 3,000<sup>l</sup> altogether.

1894 That, of course, is one of the things which impresses one about the arrangement. If you take the 10 earlier years, the average is very much smaller than it is in the last 10 years, so no doubt the business has grown?—It has, immensely.

1895 Apparently the India Council itself came to the conclusion that the commission ought not to grow simply in proportion to the business?—Yes. Of course, we have to deal with an officer who would only accept an appointment of a certain value, and who would in every way satisfy the Government. It is a valuable post, undoubtedly.

1896 I understand you to say that in your opinion, having regard to the responsibility and the amount of his work, the average payments are not now unduly high?—I think they are not unduly high, particularly if you compare them with the scale which I suppose other brokers know of, which is paid in the City for similar business.

1897 Do you attach much importance to the reason for continuing to pay by commission given by Lord Inchope, that you could hardly expect to get the best service of a man unless his remuneration was dependent—I think that is what it comes to—on the success of his exertions?—We deliberately abandoned the old plan of paying a percentage on amounts.

1898 In order to stimulate him to greater activity?—I think, generally speaking, it is a consideration which tends to ensure the best terms for India.

1899 It is not one which is ever applied to civil servants?—No, but then we are not dealing with civil servants, and one must look at it from the City point of view. I may say that I know the views of Mr Le Marchant, the preceding Chairman, were very similar, namely, that in the City we must pay for a first-class man prices which, to civil servants, look very large.

1900 The figures in Statement No 2, on page 313 of Appendix XI, I think from what you have said, do not show the total remuneration of the broker?—No. His total remuneration is shown in a statement which I think has been sent to you.

1901 Is that the paper headed "Supplementary Statement III" on page 330 of Appendix XI?—Yes, that shows you his total remuneration. Might I supplement my last answer with regard to the scale paid to the broker? Of course, the whole of it is not personal to him, that is understood. We do not know the arrangement he has made with the firm to which he belongs, that is not his personal share.

1902 It is remuneration to the firm?—It goes to the firm, and the broker's relation to the firm in that matter we do not know.

1903 In order to make your procedure quite clear, I want to ask about the auditor. Is it any part of the auditor's business to check the rate of interest received?—Not the rate of interest received, because he like myself, is a whole-time officer in the West End, and he would not be an expert. But the auditor would watch the balances and see that he invested them.

1904 The auditor would do that, would he?—Yes.

1905 In certain years you placed portions of your cash balances on deposit with some of the banks?—Yes.

1906 Who made the decision as to the banks to be chosen? Was the selection made in the same way as for the borrowers' list?—Practically. The Chairman of the Finance Committee, in consultation with other members of the Finance Committee, in the first place selected the banks, and they were shortly afterwards approved by the Secretary of State in Council.

1907 In that case, was it made known to the City that there was this money to be placed, and did you await applications from the banks?—No. No announcement was made.

1908 The Finance Committee, with the approval of the Secretary of State, selected certain banks and then negotiated the terms with them?—Yes.

1909 That, I think, was only intended as a temporary expedient?—A purely temporary expedient.

1910 And at the present time no money is on deposit with the banks?—That is so. We should never need to do anything of that kind unless our balance exceeded 11 millions.

1911 And that is a point beyond which you do not expect your balances to rise?—It is the point at which we stand at the present moment, but the amount will be largely reduced in about a fortnight's time when the dividends are paid on the India stocks.

1912 I see in paragraph 15 of Appendix XI you mention two cases where apparently the approved borrowers were unable to pay on the due date, these were the only two cases in which you have had any difficulty, I believe?—They are the only two cases in which we have had any difficulty at all. Every loan has been paid without any difficulty directly the money has been asked for. But there were two cases in 1906 and 1907 in which firms were unable to meet their engagements.

1913 Did their failure to meet their engagements suggest any further precautions?—No. I raised the question again with the Finance Committee as to advancing at par value Indian railway debentures, because both those loans were in Indian railway debentures, and it was decided not to make any change. In one case I may mention that we made a considerable profit. We took the securities over and sold them and made a profit and handed over the balance to the estate. In the other case there was a small loss on the principal, but we held the bonds for a few months, sold them, and they carried a rate of interest while we held them which was higher than we were receiving in the market, and so we recouped our loss on the principal by the extra interest.

1914 You have arrangements with the Bank of England, I think, unwritten but old-standing arrangements, that your balances on each day should not fall below 500,000<sup>l</sup>?—That is so.

1915 That is indirect remuneration to the Bank, I think, and you so describe it?—Yes.

1916 But you pay the Bank a direct remuneration for some of its services also?—Yes.

1917 Can you tell me what that remuneration amounts to?—I think there has been put in to-day a statement which gives you full information (see Supplementary Statement II to Appendix XI, page 329).

1918 I do not think I need ask you any question on your other memorandum (Appendix XII), on the authority required for payments made at the India Office, except this that I see from the statement at the end of paragraph 8 that the arrangements with the Bank of England for the issue of loans were made in December 1904, but you do not say for what period they were made?—They were not made for any fixed period. The question can be raised by the Bank or ourselves at any time, but they agree with the rate that is being paid by the Treasury. If the Treasury alter their rate for similar transactions, I suppose we should do it without question.

1919 (Lord Faber) I gather from you that you think the securities on which you lend are admirable and of a high class?—Yes.

1920 Do you not think it would be better, however, to add to that list of securities some first class stocks which are registered not at the Bank of England, but at the big joint stock banks like the London and Westminster and that sort of bank, you have not got those in your list?—Yes, I do.

1921 Do you think your list is enough? In my trade as a banker we all lend on these things, and we make no difference at all. We find there is no difficulty in getting the security registered. It appears to me, looking very carefully through Appendix XI, that on one or two occasions you have not been able to find

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quite sufficient securities of this class alone?—It very rarely happens, but because we could not find securities on the list as it then stood we admitted bearer colonial securities, and we have had no difficulties since.

1922 You rather astonished me in one remark that you made. I agree with you in thinking that you are wise to lend only in blocks of 50,000l., it saves much book keeping and it is easy, but then you go on and say that a man is safer if you can lend him 50,000l. than if you can only lend him 25,000l., because he is bigger, are you still of that opinion?—I did not mean to convey that impression. I only meant that those who would deal in such large sums could produce such large amounts of securities. We satisfy ourselves before we admit them to the list that they have large capital resources. We have had applications, as a matter of fact, from very small people who offer very high rates of interest.

1923 Am I right in thinking that the Government lend at par on Indian railway debentures, although those debentures might be below par and might have some years to run?—Yes.

1924 Is that completely wise, do you think? You are letting a man borrow on security which is not full security. Instead of lending on a margin of 5 per cent., when he borrows you are letting him have more than the security, you will get paid eventually, but meanwhile he ought to be paying market terms?—That policy has been considered again and again, and deliberately adopted because, as I have said, there is a very large amount of Indian railway debt of that kind, temporary debt, which has to be renewed from time to time, and fresh issues are occasionally made. We know that people take these things and use them to borrow from us and other people.

1925 May I say this, that the borrower, if he knows his business, and if he has any Indian railway debentures, will always borrow on them before he borrows on anything else, because he could borrow more on them than they are worth?—I should have thought so, but it is not so as a matter of fact. We found when we admitted the colonial securities that some of them came and took out our debentures and put colonial securities in instead.

1926 Now, coming to the very difficult question of the payment to the Government broker, I suppose you would be of the opinion that a broker, being only human, works rather better for a percentage than he would for a fixed salary?—I should think so. I do not say how far that would actuate him, but we all of us, I think, are stimulated by feeling that we get something out of the work we do and in proportion to the work we do.

1927 Taking your figures as correct, the broker now gets 3,000l. a year, and I think he has to pay 2,000l. for clerks and for offices, unless he is in his firm's offices? Is it his firm's offices?—Yes, but he has separate rooms for our business.

1928 Does he pay 2,000l. for those rooms?—I do not know. He employs two highly paid clerks at least to do our business, men drawing considerable salaries, one, I know, has been with him or with his firm for nearly 40 years. As a matter of fact, the broker will be before you presently and I dare say he will tell you what his office expenses are. It had better come from him than from me.

1929 It is difficult to decide a question of salary. I can only say that on the whole it appears to me to be large when I bear in mind that Cabinet Ministers, the largest railway general managers, and the largest bank managers, whose whole time is given to the work, and every moment of their time, do not get as much—many of them at any rate. I can speak from my own personal knowledge to that. This is a difficult thing, and I do not want to dogmatise on it. I do not say it is wrong?—I put the matter fully before the Council, and the matter was very carefully considered, especially by Lord Incheape. I know it had previously been considered by previous chairmen of the Finance Committee, and they decided that the present scale was not an extravagant scale. You must remember that, while we have had big balances, we must look at the average.

1930 I lay great stress on what you said about the Indian Budget. As we know from studying your figures, India has much larger balances than usual owing to certain circumstances, such as its being unable to buy its railway material, and therefore the broker has had to do a great deal more in the last few years than he would have had on a general average?—Besides, we have had, as you know, large opium balances here which have been held over until temporary debt matured. All those things help the broker.

1931 I do not think you are quite aware that it is very easy indeed to check the rate that the broker gets from day to day, you can check it absolutely to a fraction by the quotations in the daily papers?—I may say that one of the best protections we have against the broker accepting a wrong rate of interest is the fact that the daily papers publish the business we do, the period for which we lend, and what we get every day. If we go wrong everybody knows it.

1932 I may say again, as a banker, that you do not get the top price for your money?—See the conditions under which we lend. We are lending public money and we are not a dividend paying concern.

1933 You get excellent securities?—Yes, we do. A further point is that we lend for the date that we fix and that the borrower does not fix, we lend for the date on which we want the money, and we do not consider the borrower in that matter.

1934 (Sir Robert Chalmers.) Following your argument in favour of lending to outside brokers not less than 50,000l., that same argument does not apply to multiples quite, does it?—No, not exactly. What we want to be able to say is that we only lend in blocks of 50,000l.

1935 So long as you say that is your minimum, your main principle, is that not enough for you?—It might be enough, but it has not been the practice. You must remember that I have to receive some money, and that I could not even then lend right down to the 500,000l., because I have liabilities coming in quite unexpectedly. Contractors expect to be paid immediately, and demands are made at very short notice, so I always keep a larger balance than 500,000l.

1936 It might be the case that one of the people to whom you wanted to lend might want to borrow 70,000l. and not 100,000l.?—We have never been asked to do that.

1937 Of course, because they know your practice?—They know our practice.

1938 As to the loans made to the banks in recent years, do you get any security from the banks?—None. I am told that the clearing banks—and they were all clearing banks—will not give securities under those circumstances.

1939 At the time, you were lending money to these outside borrowers, and they did give security of the special and valuable character that you have already mentioned?—That is so.

1940 You did not ask the joint stock banks to give security for the similar loans that you made to them?—No. I think the explanation given was this, that the joint stock banks object always to giving security, because it makes us preferential creditors, therefore they decline to do it, as they will not put us in a special position.

1941 I quite follow that, but take the case of one of the joint stock banks going to the Bank of England to borrow money, they would give security for their loan from the Bank of England, would they not?—That is a matter which does not come within my personal knowledge.

1942 Are you aware that in some cases some public bodies have required security?—I know one public body has required some security.

1943 I am anxious to elicit your opinion. Would the requirements of such special securities from these banks mean a reduction of the rate payable, do you think so or not?—I do not think it would, but I am not in a position to say.

1944 Is it not the case that these loans to the joint stock banks and so forth were wholly exceptional?—Yes.

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1945 And are not likely to recur?—Yes

1946 Coming back to the particular case of the exceptional circumstances in which loans were made by the India Office to banks, to what extent were members of the Secretary of State's Council interested in any banks to which loans were made?—Do you mean that you want to know how many members of the Council were so interested?

1947 Yes, the number?—There were two that I know of and only two, that is to say, two actual members. There was also one ex member.

1948 I meant the number of actual members at the time the loans were made?—Two at the time.

1949 Was there any question raised, so far as you know, as to the policy of making loans to banks with which members of the Secretary of State's Council were connected as directors?—I know the question was raised, and the possibility of parliamentary criticism on lending to banks represented on our Council was fully considered. I called attention to it in a Council Minute dated December 1911. The Secretary of State, however, approved the action and thought that under the circumstances it was the most suitable thing to do. Absolute security, as far as we could attain it without the deposit of securities of any other kind, was the thing we aimed at. Our own members of Council knew the banks with which they were connected, they knew exactly what they would do with the money, and that special steps would be taken to secure its availability on the day we might want it. We might have lent to other banks who might have been equally sound, but we should not have known, as we know in the case of these banks, exactly what was done with the money.

1950 The possibility of hostile criticism was recognised in advance?—And it was fully considered.

1951 As to the composition of the Finance Committee, that, I think, is exclusively, is it not, like the composition of every other committee, at the discretion of the Secretary of State?—Yes.

1952 Is there anything that differentiates the Finance Committee from any other committee as regards the principles on which it is formed?—Yes. We have always had the City representation on the Finance Committee, in that sense it is special. It is usual, I think—though of course these matters are not really in my department, they belong to a higher authority than myself—just as there is a military member generally to represent military finance.

1953 That I quite understand, but I was not speaking as to the personnel composing the Committee. Committees are appointed by the Secretary of State for finance purposes, military purposes, and so forth, and there is nothing as regards the mode of composition or of appointment which differentiates the functions of the Secretary of State in connection with the Finance Committee from his functions in connection with any other committee, is there?—Nothing that I know of at all.

1954 And the Chairman of the Finance Committee, as of any other committee, is, as a rule, I understand, appointed in an informal way—designated, may I say—by the Secretary of State, and holds office at the pleasure of the Secretary of State?—Of that again I am not quite sure. These matters are decided in Council, so I probably am not a suitable witness to put the question to. I can only speak of what I know in the particular case of the Finance Committee.

1955 I understand that by law no business can be placed before any committee or before the Council except by the Secretary of State, or the Under-Secretary acting on his behalf, and no member of the Council can legally take part in the business of any committee unless requested to do so by or on behalf of the Secretary of State, is that correct?—That I understand to be the case. That is why the minutes of all the departments go to the Under-Secretary, who, in the name of the Secretary of State, writes "Direct to be sent to" this committee or that committee or to more than one committee.

1956 (Mr Gladstone) I think the Chairman referred to the list of borrowers against security which you give in Appendix XI, pp. 315-6, as being a somewhat arbitrary list, is this not partly due

to the fact, perhaps, that it is not generally known, or was not generally known, that firms and other suitable people could get on the list by application?—We do not advertise it in any way. We never ask people to join.

1957 I, for instance, am in the City, and I did not know how the list was composed, now I do. I think if it were desired to widen the list—it probably will be known now—you will have further applications from people who will be suitable?—An announcement was made in Parliament that applications will be considered, as they always have been.

1958 With regard to making advances at par on India Debentures, India Bonds, and the Guaranteed Debentures of Indian Railways, I do not quite appreciate the difference between Debentures and Guaranteed Debentures?—Guaranteed Debentures are the debentures of a railway company. The India Debentures are debentures of the Government of India.

1959 Do you think it is quite sound to advance on their par value? Would it not be better to put these securities into the list for market value, even if the cover was reduced somewhat from 5 per cent? I do not quite see why advances should be made on securities above their market value. If that practice were abused, bankers could buy these securities below par value and then obtain the full par value from you and have a permanent margin?—There is, as a rule, very little difference, because these bonds are renewed from time to time on terms that practically bring them to par every time they are renewed.

1960 It would only be a matter of  $\frac{1}{2}$  per cent then?—Say of 2s 6d, or something of that kind. There has been very little in it.

1961 (Lord Faber) They have been a good deal under par just lately but that, I suppose, is exceptional?—Yes. That will be readjusted when the time for renewal comes.

1962 (Mr Gladstone) Then with regard to the list of borrowers, it being your practice to demand a margin of 5 per cent on market values, you are practically secured except against fraud on these loans?—Yes.

1963 A 5 per cent margin on securities of this character is a very large margin?—It is.

1964 With regard to the rate that you obtain, some reference has been made to the top price. You have referred to the rates of interest which are published in the newspapers, and have stated that that makes it possible for you to check the broker, are you satisfied that he does get you a very good rate?—That is not, of course, my check. Personally, I can have very little knowledge of the prices of the market at the time, except what I may read in the newspapers, but the City members of the Finance Committee are in close touch with the hourly movements of money, they check it, and we have, as I say, the additional security which publicity gives as to what we do.

1965 My own experience is that you do get a very close rate?—I think we do.

1966 I had an instance only two months ago, where I lent 150,000l. The National Discount Company took it, telling me that a similar amount had been called in by the Secretary of State that morning. I got from them something like the same rate,  $4\frac{1}{2}$  or  $4\frac{1}{4}$ . That gave me the impression that the India Office did their business uncommonly well?—I think my observation would entirely confirm your view, that the broker does everything a man can do to get the best rate he can.

1967 No doubt you could look up this actual transaction if desired. We have not had before us a list of the joint stock banks with whom deposits were made?—The names have been published in answer to a question in Parliament. Of course there is no objection to giving them.

1968 (Chairman) I think we ought to have them?—The names are the National Provincial Bank of England, the London County and Westminster, the Union of London and Smiths Bank, the London City and Midland Bank, Glyn, Mills, Currie & Co., the London Joint Stock Bank, and Messrs. Barclay & Co. Other banks have applied, and they have been

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told that if the practice were resumed their names would be considered.

1969 (*Lord Faber*) You have got quite first-rate banks on your list?—I think so.

1970 (*Chairman*) Other banks you say have applied since—since when?—Since the parliamentary questions were asked.

1971 That is, since it became known that you had been lending in this way?—Yes.

1972 (*Mr. Gladstone*) Did you consider the financial position and general standing of those banks was so high and undoubted that really it was almost superfluous to ask for security?—I could not judge of that, but our two City members, who were bankers, thought they would not give security.

1973 Do you not think they were probably influenced by the fact that if you did ask for security the rate of interest would undoubtedly be lower? Is it not the regular practice to make a difference in the rate in the case of high class institutions whether security is given or not?—It is quite possible, but that is a practice that I cannot say that I am aware of myself from any personal knowledge.

1974 With reference to Mr. Scott, do I understand that he gives his whole time to the business of the India Office?—Practically, that is to say, we have the first call on him at any time. At any business hour of the day either a member of the Council or myself can obtain his services at once for anything that is wanted.

1975 In deciding that it was preferable to utilise the services of a broker of the highest possible standing in the City, I suppose the opinion was that he would have better opportunities of getting the best rates than a salaried man who might not have the same opportunities of gauging the market?—I think one reason was that we wanted the broker to be associated with a firm which contained partners with large financial knowledge as well, and in his absence one of them has to do his business. If you take a firm like Messrs. Nivison, I do not consider that they are overpaid by the office for the work that they do.

1976 In other words, you consider that the income of each individual partner in Nivison's is considerably more than 8,000l a year, quite apart from India Office business?—I have no means of judging that, but I should think it is very possible.

1977 The business conducted by Mr. Scott, that is, the daily transactions against securities, and the moving of them from one firm to another, and from the Bank backwards and forwards, is a very laborious and responsible business, is it not?—Undoubtedly. It would be a very serious matter if anything went wrong with any of them.

1978 On the estimate of 2,000l for expenses, which Lord Incheape mentioned, does that not strike you as rather low? Knowing the rents, for instance, which have to be paid for offices near the Bank of England on the ordinary scale, I confess I should be astonished to hear that an office could be run near the Bank of England to transact this business for the India Office on 2,000l a year?—I think I know the salaries that are paid, and that allows me to judge how much is left for rent. Considering the very important position of the premises and so on, I certainly think that 2,000l a year is not an excessive estimate of the cost of the office. It is immediately opposite the Bank, on the other side of the road.

1979 I see in Appendix XII you make a reference to the purchase of stores (pp. 331-2). Without going into details, I would ask whether in the interests of Indian finance it might not be desirable to purchase stores, railway material, and other things far more freely in India than is now the practice even although the material may come from Europe? Payment, of course, would then be made in India, the quality of all goods would be checked there, presumably and of course it would be popular in India, the idea of traders in India being that a great deal more business of that kind should be done there?—I know this matter has been very fully considered for many years, but it has not taken place in my department, and I do not think I could make any statement that would be of much

use to the Commission. It is a matter for the Director General of Stores.

1980 (*Mr. Keynes*) What are India Debentures, which are the first stock referred to by you?—We have no India Debentures outstanding at the present time, but we had some a few years ago. They were simply debentures running for seven years. It was found convenient to raise money in that way instead of raising it by India Stocks, or by shorter term securities such as India Bills or India Bonds.

1981 May I understand that the securities placed in the first class in paragraph 5 of Appendix XI (page 310) have two advantages, namely, that they are received at their par value, and that they are also free from the liability to the provision of cover?—Yes, those three classes of Indian securities stand in the position you state.

1982 They have got both advantages?—Yes, we advance at par and there is no cover.

1983 With regard to the remuneration of the broker, it is in proportion, as I understand, to the interest that he earns, and therefore it depends not only on the volume of business, but also on the rate which prevails for money in a given year?—Yes.

1984 I notice that for a large part of 1912-3 the rate of interest shown in Supplementary Statement I to Appendix XI (page 328) was much in excess of what it had been in some previous years, because the prevailing rate of money was higher in that year. The figures for 1912-3 are perhaps 50 per cent higher than the figures for 1911. Therefore the broker would be getting a remuneration 50 per cent higher through no virtue of his own, but because the rate of money all over the market was higher in that year than in the preceding year?—That is so.

1985 It would be a purely casual remuneration which had no reference to the volume of business or to the trouble or skill which was involved?—That is so, but you must set against that high rate the 1.79 rate which you get at the top of the table. It is an average rate.

1986 I was leading up rather to the point that, if you wish to pay the broker by commission in order to make sure that he will use all his skill, the results of his skill are shown rather in the excess that he gets over a certain amount than in the absolute amount, that is to say, if he is skilful he may get 4½ per cent instead of 4¼?—Yes, if he is skilful and persistent.

1987 Do you measure his skill by the amount he gets in relation to the average Bank Rate in a given year, or something of that sort, rather than by the absolute total he gets?—We do not consider the Bank Rate has any reference at all to this. The Bank Rate is very often ineffective, and generally applies to rather a different class of transactions from those. It really, as far as we can see, has very little reference indeed to the particular rate that we get.

1988 (*Lord Faber*) This is what bankers call day to day money which is quite a different thing?—Yes, it is.

1989 (*Mr. Keynes*) Would you agree that the amount extra which he can get by his skill is quite swallowed up by the fluctuations due to variations in the general rate for money?—Both of the reasons you have given operate, but it would be difficult to say precisely how far the broker's skill, or the movement of the market, affected a particular transaction. His skill consists in getting the highest rate under the existing market conditions. I am afraid I could not express an opinion as to how far a particular rate was dependent upon the broker's skill.

1990 Suppose that in a given year, or in a given month, he is earning for you 3½ per cent, and by his skill he gets an eighth per cent more than if he had been less skilful, the proportion of his income which is affected by his additional skill is about one thirtieth?—Yes, but that might make, over a large sum, a very considerable difference. As Lord Incheape pointed out, at the time we had 20 millions out an eighth per cent on our interest would have meant 25,000l.

1991 (*Lord Faber*) I should say both his skill and the money market have to do with it?—They have to



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do with it, but I cannot say how much belongs to each.

1992 (*Mr. Keynes*) If he is getting a net income of 6,000 a year, one-thirtieth of that is 200l, which is something trifling to him?—Yes.

1993 So the amount of difference to his income that his skill makes is very small?—No. Knowing the very great pains he takes every day to ascertain the rate, and to get the best rate, I should say that we owe a great deal to his skill and persistence.

1994 I am not disputing that the India Office does not gain large sums by his skill, nor am I denying the exercise of it, all I am saying is that his skill makes very little difference to his own income?—It is not very large, but of course he has a financial interest, and where people have a financial interest they will work. I do not think, generally speaking, it is wise to rely on a man doing his best simply because of principle, if you can give him an incentive in the way of inducement, even if it is small, it helps.

1995 I wish only to suggest that the amount of incentive which has been given him in this way is scarcely sufficient to justify a system which might be open to objection on other grounds?—I am inclined, looking at it generally, to think that the wisest plan (and it is the City plan generally, I think) is to pay by what you might call piece work, that is to say, to make the remuneration depend, where possible, upon results.

1996 I understand that, apart from deposits in banks, you never lend for more than six weeks, and generally for less?—There is nothing to prevent my lending for more, six weeks is not laid down as a maximum, but that has always been the practice, and it is well understood, but there is no minute on the subject. When we decided to lend for longer periods on deposit no minute was required, that is, no fresh minute from the Secretary of State, on that point I think I explained to the Chairman that our reason for the six weeks is that it is very undesirable to let our balances go out of our control for a long period. We can never tell what may happen in another part of the world which may make it necessary to make them available, and we can never tell what may happen to any particular firm which may make it desirable to call the money in at no distant date.

1997 (*Chas. man*) Shall we put it in this way, that you are playing for safety?—The entire game is for safety, if I may put it in that way.

1998 (*Mr. Keynes*) If the reason for lending for short periods is put on the ground of safety, are you not sufficiently secured, in the case where, for example, Consols is the security, if you take a margin of five per cent?—No, because in practice we find there are difficulties in the way of realising our security immediately. The two cases where we had to realise them were where we found ourselves grouped with other creditors, and the Secretary of State had to consider what other creditors were doing, and to some extent act with them. As a practical matter what happened was this. Some of the creditors refused to take over their securities and give a release and some agreed to do so, the Secretary of State declined to do so, because it was thought that the defaulter had other means and there might be something more than the security available. Eventually all the creditors accepted their securities, and then the Secretary of State accepted his, although at the moment they could not be realised to produce exactly the sum. This took some little time. As a practical matter the money was not available immediately. So it would generally happen that unless we were forced to do it, we should not take an isolated line, but we should act in concert with other creditors of the firm. That is what happened in those two cases.

1999 In both of those cases the securities were of the exceptional class in which no margin was taken?—Yes, those cases were so. The probability is that there would be some formalities, as there were the last time. We should have to arrange with the representatives of the broker that we should take them over, and there would be an exchange of documents which would give effect to these arrangements.

2000 If you took a margin and it more than covered your loan no difficulty could possibly arise, as you would immediately accept your security if it more than covered your loan?—We should do so if we were obliged to do so, no doubt, but, in the only two cases I have come in contact with, the Secretary of State thought it was better not to take an isolated course, but to act in agreement with other creditors.

2001 (*Lord Faber*) When you lend on security you lend on collateral security, and if the man fails, you first of all get a dividend and then you come back on the security?—Will you please look at the form of agreement?

2002 You ought to do that?—The first security we have consists of the securities deposited, but the estate makes good any deficit, if there is one. It is expressly laid down in the agreement.

2003 I am surprised at it. My point is that generally when you make a man a loan you take the security as collateral, and then if there is a dividend you get that?—If you will kindly look at the form of agreement in my Memorandum on the Placing of Cash Balances, pp 314-5, you will see exactly how we stand. That says, "We hereby authorise you to sell immediately all the securities accepted in respect of this advance, and to repay the advance with all interest then due, so far as the proceeds of sale will allow, and we hereby undertake to repay any deficiency which the proceeds of sale may fail to discharge." So our first security arises out of the securities deposited, and in the second place we have a claim against the estate of the defaulter.

2004 You can easily have it worded in another way by which you come first of all on the estate and then on the security, that is done by bankers every day of the week?—This was drawn up by our legal adviser. I do not know whether he is aware of that practice, but it is a useful thing to know.

2005 (*Mr. Keynes*) The point I am trying to bring out is merely this, that with the exception of the first class, India debentures, India bonds, and guaranteed debentures, you have taken absolute security?—Yes.

2006 But in these three cases you have not taken absolute security, and you have twice been in difficulties?—Yes, that is so. They were not serious difficulties in any way, not even inconvenience.

2007 Some slight difficulty—may I put it like that?—No, I do not think practically there was any inconvenience, there would have been if we had wanted the money very badly, but it did not really matter at the time. I should not like you to think that the finances of the Secretary of State were in any real difficulty at all.

2008 I am pursuing my original point, that in those cases where you are perfectly secured there is no reason for taking into account the consideration of safety when you are thinking of the period for which you should lend, it is only if you are not perfectly secured that that is a relevant consideration?—There is a larger consideration, that we may want to realise our whole balance, owing to foreign complications and those sort of things.

2009 I was not taking that point now?—There remains that point, even if you say we are fully covered by the securities deposited with cover. I was trying to make it clear that it is a little difficult for the Secretary of State to realise immediately even where he is supplied with cover. He would probably be asked to fall into line with other creditors, and so on.

2010 I do not understand why that should be so where there is a 5 per cent margin?—It possibly may not be legally necessary to do so, but I may say that people would look a great deal to see what the Secretary of State was doing and if he took any course that seemed harsh to a creditor or anything of that kind, he might be supposed to be giving a lead. As a matter of fact, the Secretary of State would sooner stand and see what other creditors were doing, unless it was absolutely necessary to realise for the security of the India Office.

2011 I do not feel that I have quite got an answer to the point that I was trying to raise, but

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I will not pursue that question further. There was a possible implication in one of your answers to Sir Robert Chalmers which I should like to clear up. Are we to understand that the banks represented on the Secretary of State's Council had a certain advantage when deposits were being made, in that you were in a better position to know exactly how they would treat your deposit?—No, those banks were not in a better position, and I will not say that it placed them in a better position because those who were responsible for our money were represented on the banks and knew exactly what the banks were going to do with it. The chairman, who had to decide how these large sums of money could be placed with the greatest safety, naturally would feel with regard to the money that was to some extent under his direction that he would know what was going to be done with it, and that it was safe in that sense.

2012 Did the fact that you had authorities of these banks on your Council make it more probable that the Secretary of State would choose then banks than that he would choose different banks?—There was some advantage in doing so, but that is all I should wish to say. It was known that special provision would be made, and it was known what class of business the banks were doing. With regard to some other banks, I do not suppose anyone at the Council would know with the same degree of certainty exactly what was done with the money.

2013 (*Sir Shapurji Broacha*) There was at one time a great outcry, often repeated, that you lent at 2½ per cent and borrowed at 3½ per cent. To a banker that seems all right, because it is better to keep money employed than for the money to lie idle. Still, as you had those large sums to lend, could you not have foreseen that a certain amount would fall due, say, on the 5th June, and when lending that money in April, say, only lend it up to the 5th June? That would have avoided the outcry of the man in the street who does not understand these things?—What do you mean by money falling due?

2014 Say that you lend to day a million of money for two months, and yet on the 30th June some money is falling due for payment, could you not manage it so that you would only lend so much for two months or six weeks, so as to be ready with the cash when this payment was due?—Perhaps the simplest way would be to explain exactly on what principles I do place this money. I take six weeks as the maximum for lending, and I should look to that six weeks and make the best estimate I could of all the special payments that have to be provided for, including payments of interest, the maturities of debentures and so on. I should also calculate the amount that would have to be paid in pay, pension, retired pay, and all that kind of thing. I should make ample provision, in fact, for all special liabilities first of all, then I should take the rest and distribute it pretty evenly over the days, that is to say, every business day I should put a certain amount upon that day after I had provided for special liabilities. Of course there is more on many days than I want, and then if it is not wanted it is renewed, but I do provide for all special liabilities that I can foresee, and distribute the rest evenly over the period.

2015 I do not criticise your lending at all, but I say that by timing the payments you might prevent the man in the street crying out about it?—I do not quite appreciate your point.

2016 You are lending to day a million for six weeks, and the Secretary of State has to pay a quarter of a million at the end of the month, could you not lend three quarters of a million for the six weeks and a quarter of a million until the end of the month when the Secretary of State has to pay that money, so that the difference between the rate of lending and borrowing would not be noticed, it would only require a little care?—I think the criticism about borrowing arose from the fact that we renewed India sterling bills for a certain period—that is what called attention to it—and we were not gaining as much interest

as we were paying at the time. That was the cause of the criticism.

2017 You might have lent up to date, and then again borrow at the rate you lend, on the same day?—I am afraid I do not quite understand your point, or its relation to the criticism to which the office has been subjected.

2018 If you had a million to lend for six weeks, and of that million you required to pay a quarter of a million on the 30th June, could you not have lent three quarters of a million for six weeks and a quarter of a million only up to the 30th June, the date the Secretary of State has to pay that money?—Do you mean that after providing for absolute requirements could I not lend the surplus money up to the extreme limit?

2019 (*Mr. Keynes*) May I put it like this—that up to the six weeks you do consider very carefully the commitments that you have in view?—Yes.

2020 But that beyond six weeks you do not?—I should not like to say I do not, but not in lending.

2021 Not in loaning is what I mean?—Then I do not.

2022 So you are not open to Sir Shapurji's criticism up to the six weeks?—No.

2023 But if he applies it to purposes beyond the six weeks, then your defence, if you have one, is a different one?—Does Sir Shapurji mean that after providing for all the liabilities that I can foresee I should let the surplus go for a longer period?

2024 (*Sir Shapurji Broacha*) That is what I say?—Of course it might be done, but it has not been done, and the reasons have been, as I say, that we have been a little bit careful. We are the largest lenders of public money, and I think it is a good sound principle not to part with your money for a longer period than is necessary, because emergencies do arise and we can get our full balances within six weeks at the outside. As I said, there is a further advantage, that it enables us in a particular case to call in money at no distant date, whereas if we lent it for some months we might see difficulties coming, and yet be powerless to take measures against them.

2025 It has been stated in evidence that the Bank of England requires half a million to be always kept in its hands, and that you should give notice the day before when you require money, so that you cannot lend the same day that you receive the money?—Generally I can, but in Appendix XI, page 319, I state that where we have heavy payments to make the Bank expect us to make provision the previous night, and that is in accordance with what they do with the Treasury.

2026 And that makes you lose one day's interest?—Yes.

2027 It would not matter to the Bank of England to allow you to overdraft for a few hours, as before the Bank closes it would be paid up, it would not be a loss to the Bank of England, but it is a loss of one day's interest to you?—We are quite alive to that, and we have tried very hard to get it remedied. The reply has been that if the concession is given to us it will have to be given to His Majesty's Treasury, and the Bank will not move in the matter.

2028 I think the Bank has a large sum from the India Office, still that is another matter?—We have often tried to get the Bank to strike our balance at 4 o'clock in the day, but they will not, and I have to write off the amount necessary to meet a big liability at 10 o'clock in the morning, and therefore I have to provide the balance the previous evening.

2029 You approved borrowers are confined to a certain number, and you cannot lend beyond those approved borrowers?—That is so.

2030 It often happens that one of the approved borrowers on a given day does not want to borrow at the same rate as another approved borrower borrows, but it would not pay you to keep the money idle, so you may have to take from one man an eighth less, or a sixteenth, and so on, during the day?—As a matter of fact we get almost universally the same rate from all our borrowers for the day. The broker has to find the best rate which can be obtained and he gets that

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from all the borrowers. If any borrower will not pay that rate—and that frequently happens, if he says no that is not the rate, or it is not a fair rate—then the money is taken from him and given to someone who will pay that rate.

2031 If you have a million to lend these 62 people, and only 40 or 50 of them will take half or three-quarters of the million on a certain day at 2½, or something like that, then you are met with the question whether you should not lend the remaining portion of the million at some concession rather than keep it idle over the day?—Sometimes the broker has held money over, thinking it would pay the office to lend it from the next day, because he could get a better rate than, perhaps, on the previous day. That the broker would consult me about.

2032 Discrepancies in the rate do occur, and you will find it sometimes three-sixteenths in the morning and three eighths in the evening, so you cannot lend all your money on the same day at the same rate?—Perhaps not if the amount is very large.

2033 (*Mr Gillan*) You say in paragraph 14 of Appendix XI (page 312) that the broker is usually not able to lend to the approved borrowers on security a larger sum than from 10 millions to 11 millions, what is the limiting factor?—The limiting factor is that it is usual in the case of smaller firms to impose a limit, and there is also an implied limit with the large firms. Then we find in practice that some 15 or 16 people on the list rarely take our money, and when we have lent to all those on the list up to their limit, and have also lent large sums to other firms who are not specifically limited, we find that the total amounts to about 11 millions.

2034 I was thinking more particularly of the memorandum of Mr Abrahams where he spoke of the supply of the securities required being limited?—That element has come into the matter very recently. We have bought large railway systems of India, and we have taken over the debentures which they have raised, and they have become India debt, and we have been obliged, as they matured, to pay them off. Whereas about eight or nine years ago we had 18 millions in the form of bearer debentures, we have now only about 12 millions, so the market has become more limited, and we have recently taken Colonial Treasury bills and bonds partly owing to that difficulty.

2035 So it is partly a limit of the amount and partly a limit in the class of securities that can be deposited?—Yes. I cannot say how far now it is due to limits of securities, because there is a very large number of Colonial bonds on the market.

2036 (*Chairman*) When that difficulty arose to which you have just referred, did you take any steps to increase the number of approved borrowers?—No.

2037 Did you wait for them to come to you?—Yes.

2038 It did not occur to the authorities of this office that it might be well to instruct the broker to see whether there were not other houses of equal standing who might be glad to come upon the list if the existence of the list was brought to their knowledge?—That was not done. I think there was perhaps some difficulty in taking that step, because if we approached any firm we should be obliged to accept them, we could not invite them unless we were fully satisfied ourselves that they were a suitable firm.

2039 You would have to make your inquiries beforehand?—Yes, and not after. It was not done, because the difficulty was considered to be a temporary one.

2040 One other question with regard to the position of the broker. I have here a letter explaining the terms made by another public department with their brokers, in which they say their brokers are paid an annual salary, which covers all the work done, including commission. I, of course, accept from you what you have said that their work is not as extensive as the work of the broker of the India Office?—I know the department to which you refer, I think. They do not loan out, it is a different class of work.

2041 The work is not co-extensive with the work you do?—It is not the same in character. The work that the broker does for them is in the purchase

and sale of stock. Our broker's commission is for loans, as the main work he does for us is loaning our money, which is a different thing. I suggest that the things are not comparable.

2042 I understood you to say that, as far as he is selling stocks or purchasing stocks for them, he is paid by a fixed salary?—No, he is paid by a maximum salary, the maximum being the sum which you have in the paper before you. He is really paid very much less in average years.

2043 The letter which I have in my hand, speaking of the salary which is paid to their brokers, says "Naturally the fact that they"—that is, then brokers—"are known as the Government brokers brings them a lot of private business." Is not the position of broker to the India Office worth something more than the salary in the same way?—I should think it probably was, but the broker has told me many times that he never has asked any firm with which we deal to place business in his way in consequence of it, and he is not conscious that they do.

2044 I did not mean to suggest that he was trying to use it in that way?—Nobody expected at all that people doing business and borrowing money from us would necessarily go to Mr Scott with other business because he was our broker. I dare say it is an advantage to him, as it gives him a position in the market.

2045 You would perhaps agree that it was probable that the position of broker to the India Office would have a certain prestige attached to it?—Yes, that is so.

2046 Which might be a valuable consideration if a man was considering whether the terms of remuneration offered were sufficient to tempt him to take the office?—I certainly agree with you.

2047 (*Lord Faber*) You were good enough to give us some figures about the Bank of England, and the condition of the account with the Bank of England. That seems to me rather an important question, and I have looked at the figures. You have prepared one paper entitled "Statement of Payments to the Bank of England and the Bank of Ireland for remuneration in respect of under-mentioned services" (Supplementary Statement II to Appendix XI, page 329). Looking back at the last six years to the total payments made to the Bank of England, I find these figures—61,439l., 60,842l., 65,166l., 73,767l., 64,539l., and 66,574l. That is the amount of the payments which the India Office actually made to the Bank for services performed?—Yes.

2048 Then I learn from the explanatory note B to Statement No 3 on page 319 in Appendix XI that you are under agreement as well to do a very important thing, namely, to keep a balance of 500,000l. at the Bank of England without interest?—Yes. Assuming that our minimum balance is 550,000l., which in practice it is, we estimate that to be worth at 2 per cent. 11,000l. a year, at 2½ per cent. 13,750l. a year, and at 3 per cent. 16,500l. a year.

2049 When I come to look at the balances actually at the Bank of England, the figures of which you are good enough to furnish us with for 1912-3, I find that the balance has very often been a great deal more than 500,000l.?—That is so.

2050 In the last two years, which perhaps it is not quite fair to take, the balance was on one occasion 1,200,000l. and on another 2,295,000l.?—Which paper are you referring to?

2051 Statement No 3, on pp 320-7 of Appendix XI. If you look at those balances you will see that they run very high, and they are exceedingly valuable, of course, to any bank?—You will notice if you look at column 4, that whenever there is a high balance, provision is made for a big payment next day in column 2.

2052 I dare say that may be so with the very high ones, but if you run your eye down the daily list you will find it is often about 600,000l. and 700,000l.?—Yes, it is.

2053 During the last two years I think I should be under the mark if I said that on an average that balance had been worth 3 per cent. all the time, and sometimes a good deal more. It comes to this, that

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you not only pay them 66,000l but you have paid them 20,000l a year, I should think, in one way or another, for interest, that is, you have paid 86,000l a year to the Bank of England. That seems a great deal, does it not?—Yes. I have called attention to that time after time, and our Finance Committee and the Secretary of State have made many representations to the Bank of England when we have had opportunities. Of course, we make agreements with them for certain terms, and we have done our utmost to get the rates reduced. Personally, I must say I think we pay very heavily.

2054 (Mr Keynes) Now that that question has been raised, I see that the minimum charge for the management of the rupee debt is 8,000l?—Yes.

2055 What is the amount of the rupee debt now on the books of the Bank of England, I think it does not much exceed 7 millions, does it?—Yes, I think I am right in saying it is 12 millions.

2056 (Mr Gladstone) But it has been very much lowered?—Yes, it has fallen very much, it has fallen from about 18 millions to 12 millions.

2057 (Mr Keynes) Therefore the remuneration is now at the rate of more than 1,000l per million?—I have here some papers about it. That matter was very fully gone into with the Bank and the terms for the rupee debt were raised in consequence of their representations. They represented that they were actually loosing heavily on the scale we were paying before, owing to the staff they had to maintain and the separate office. They said a minimum must be fixed or the business would be unremunerative.

2058 Why do they have to have a separate office for the rupee debt as distinct from the other debt?—They say they must have a separate staff for it.

2059 I suppose that practice grew up when the amount of the rupee debt held in this country was very much greater than it is now?—No doubt. This is what the Bank said in a memorandum† forwarded to the India Office.

2060 What date is that?—1905. This was when the last agreement with the Bank was entered into. They commence their statement with regard to the rate of remuneration then existing by saying, "The charge for the management of these securities"—that is rupee securities—"was fixed in 1898 at a figure which has proved to be wholly unremunerative to the Bank. A separate office has to be maintained for the transaction of the work, which requires

The witness withdrew.

Mr HORACE H SCOTT called and examined.

2069 (Chairman) You are the Secretary of State's broker?—I am.

2070 How long have you held the position?—I was appointed in January, 1904.

2071 I understand from Mr Baddock that when you were appointed it was made a condition by the Secretary of State that you should join a firm to be approved by him?—That is so.

2072 I understand that you arrange all loans on behalf of the Secretary of State?—Yes.

2073 You also carry out all purchases or sales of securities on his behalf?—That is so.

2074 Do you do any other work for the office, or does that cover your business?—I attend to give advice as to the renewal of Indian railway debentures, and am always at the call of the Chairman of the Finance Committee and the Accountant General.

2075 We have had before us the list of securities on which the India Office lends, may I, in the first place ask whether you think the distinction can be justified which is drawn between, on the one hand, India debentures, India bonds, and guaranteed debentures in the several Indian railways, which the Secretary of State takes as security at their par value, and, on the other hand, Treasury bills, Exchequer bills, and Exchequer bonds, which are taken at their market value?—The borrower just has to make up the rebate

"extreme case and is attended with considerable risk"—and then there is a long story which I need not read. The Commission will remember that we are not exactly in the position of free agents in our relations with the Bank of England. The Government of India Act of 1858 has tied us absolutely to them, and it provides that they shall be remunerated not on any scale fixed by Parliament but on a scale to be agreed upon, but seeing that we have no option but to go to the Bank, our negotiators, of course, are in a position of considerable difficulty.

2061 You would agree, would you not, that a system which costs 1,000l per million for the management of the rupee debt seems, *prima facie*, an extravagant one?—It would appear to you and to me so, but, of course, we cannot go to the Bank of England Accounts and go into that. One must accept it that that is their view, and that they have good reasons for the view they express.

2062 (Sir Robert Chalmers) In your relations with the Bank of England you are, to a great extent, conditioned by the arrangement made by the Treasury with the Bank of England, and you always would have that in view?—Yes, we have always had that in view.

2063 The arrangements with the Treasury are statutory under an Act of 1892, with which, I presume you are acquainted?—Yes, that is so.

2064 That Act prescribes definite rates 32s for every million of debt up to 500 millions, and thereafter at the rate of 100l for every million, and so forth?—Yes.

2065 That is an agreement and is a statutory agreement?—Yes.

2066 Section 4 (2) of the Act of 1892 goes on to say that those terms shall be in force until 1912 and these after until Parliament otherwise directs?—Quite so.

2067 So you cannot move very vigorously until Parliament has otherwise directed in respect of the Imperial Treasury?—Quite so. Might I say that the Chancellor of the Exchequer's attention was called to the possible termination of the present terms, and in a reply he gave in the House of Commons he said he was considering them, but it was not his immediate intention to take any action.

2068 All that is very present to the minds of the authorities of the India Office?—Yes. All those terms were fully before the Bank and the representatives of this office when the matter was discussed at the Bank.

on such things as Treasury bills and Exchequer bonds some of which run into 1930. I think it is to the advantage of India to take their own securities at par value—I mean not to depreciate their own securities.

2076 Regarding the India Office merely as lenders for the moment, there is no reason in the nature of the security why they should take those above their market value, is there?—No, not in the nature of the security, but by doing so they are able to issue or to renew debentures on more favourable terms than if they asked for a margin on such things.

2077 On the other hand, we have got it in evidence that on only two occasions, I think, has there been any difficulty with borrowers?—That is so—only two.

2078 And on both those occasions the difficulty arose in regard to this class of security against which loans had been made up to their par value?—That is so.

2079 Do you not think that, on the whole there would be something to be said at least for not lending above their market value?—No, I think it would be advisable to leave things as they are. Some years ago, when money was very easy, debentures were issued on a 3 per cent basis, but now although they are nearer maturity, they are not worth par, I suppose they are about 94.

2080 In cases now it would pay a would be borrower to go out into the market and buy these securities because he could get from you immediately actually more money than he had paid?—Yes, that

† Not printed.

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[Continued

has been so. You mean that a man with 99,000l might get something worth 100,000l immediately?

2081 Yes?—Still, you gain by being able to issue them and renew them on more favourable terms on this account.

2082 So you would say, would you not, that having to balance the interests of the Indian Government as a lender against the interests of the Indian Government as a borrower, you think the interests of the Indian Government as a borrower ought to prevail in this case?—I do.

2083 As regards the list of securities as a whole, is it ample for your purposes, or have you ever had any difficulty in lending as much money as you wished to lend on the securities included in this list?—Only when we have had a very large amount out. In normal times I mean, when the amount out has been considerably less, there has been no difficulty whatever.

2084 You could enlarge your list without taking any less good security, could you not?—The list has been enlarged within the last two or three months, and that has helped very considerably.

2085 I think I gathered from Mr Badock that the India Office confine you to securities which are registered at the Bank of England?—Yes.

2086 Or bearer securities, which would, of course, be deposited with the Bank of England?—Yes.

2087 As far as I can gather, there is no statutory provision which renders that necessary, though it is a practice which the India Office has pursued ever since they took over the management of these affairs?—That is so.

2088 Do you think there is any advantage in that distinction?—In the case of registered stocks I think there might be difficulties if it were not so. For example, take a stock that has gone into the name of the Secretary of State, the chief cashier's office at the Bank of England do not accept what is called a stock receipt as evidence until they have seen the transfer book, which is brought from the transfer office and exhibited at the chief cashier's office to show that the stock has actually been transferred into the name of the Secretary of State. If stocks were transferable at other banks, the book could not, of course, be brought from that transfer office and exhibited at the chief cashier's office to show that the stock had been registered in the name of the Secretary of State.

2089 You do not think it would be sufficient to take a letter from the Joint Stock Bank to the Bank of England stating that that had been done? You were suggesting that the Joint Stock Bank would have to carry its transfer book to the Bank of England. Would it have to carry its register to the Bank of England?—That is the practice at the Bank of England, and this would be a matter for the Bank of England to decide.

2090 Is it necessary?—They do not accept the ordinary stock receipt as evidence without seeing the transfer book. There would be that difficulty. Then there is a difficulty to my mind of the stock being transferred out of the Secretary of State's name. The cashiers of the Bank of England are now attorney to the Secretary of State, I have not asked the question, and I do not know whether they would go about the city to different banks making these transfers out of the Secretary of State's name.

2091 You are limited, of course, in two ways, you are limited by the class of securities on which you lend and you are limited also by the number of firms you have on your list?—Yes.

2092 I rather gathered that no efforts have been made to extend the number of firms?—I never go out and solicit firms to come on the borrowing list. They know the ropes, and if a new firm wants to come on they write to me a letter, which I have asked them to do and which I forward to the India Office.

2093 Do you think it was generally known before the recent discussions that this practice prevailed?—Yes.

2094 I ask because one of our members who is in the City was not aware of it?—Did he not know that the *modus operandi* was to approach me?

2095 (Mr Gladstone) I did not know how the list was arrived at, or who was on it, or anything about it?—Anyone who wishes to go on the list comes and sees me, I ask him to put it in writing, and I forward the letter to the India Office.

2096 (Chairman) Have you in consequence of the publicity given by the discussion in Parliament had any withdrawals?—One.

2097 Have any fresh names been proposed to you?—No, I do not think so.

2098 I think I must tell you that incidentally we have had under our consideration the remuneration you receive as broker. I put it to Mr Badock, and perhaps I ought to put the same question to you. I asked him whether he was aware that certain other Government departments paid their broker by a fixed sum, or a commission with a fixed maximum. Perhaps you are aware of that?—I do not know how they pay. I do not think they pay by a fixed sum.

2099 I ought to make it clear. The cases I am referring to are for sales and purchases of securities and not for lending money?—That is so in those cases.

2100 I understand the arrangement with you as regards the sale and purchase of securities is of a very similar character, and that there is a limit to the amount of the commission in your case?—I believe—I do not think I am disclosing anything—they get a fixed sum whether they do any work or whether they do not. I should not like to be certain about it.

2101 In your case you get a commission at a certain rate up to a maximum of 1,500l, £.—That is so.

2102 But in regard to the loans you are paid on the interest earned?—That is so.

2103 Owing to the growth of the business your remuneration received in that way has very much increased?—Yes.

2104 And has reached very high figures in some years?—Yes, but the work has increased.

2105 I do not ask you to say anything about this unless you wish, but I think it only fair to you to say that I suggested to Mr Badock in the course of his evidence that the arrangement needed revision?—In 1911, or do you mean now?

2106 I thought the average of recent years had been very high?—I might also add that the work has been very great and the responsibility very great. The work has grown enormously.

2107 I asked Mr Badock if it had ever been considered here whether an arrangement might not be made that the broker should work on salary, and whether that might not be an economical arrangement for the India Office?—It depends upon the salary fixed.

2108 (Lord Faber) I understood from you that you think it helps India to lend on railway debentures, taking those railway debentures at par?—Yes.

2109 Did you also say there were some Indian debentures running as far on as 1930?—Those are Exchequer bonds.

2110 What is an Exchequer bond due in 1930 worth to day?—I think about 96.

2111 And you lend 100 on that?—No, I would not lend 100 on that, they have to give me about 104,000l for 100,000l.

2112 I suppose that the cashiers of the Bank of England do for the India Office, and very rightly do, things with regard to the transfer of stocks that they would not do for anyone else?—I am afraid I am not in a position to answer that. I do not know whether they are attorney to other people so I could not say.

2113 I should have thought that as regards these other big banks who have so many stocks inscribed in their books now, it might be that they would make an arrangement to help the Secretary of State to get over that difficulty, of which you justly speak, of his getting in and out of stocks, because that would open certain good stocks which at present are not open?—It might. What stocks have you in mind?

2114 I have not any particular stock in mind, but there are many that we bankers see?—Quite so. If you are touching upon Colonial stocks I think you should

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[Continued

have all or none, because otherwise there might be jealousy between one colony and another

2115 (Sir Robert Chalmers) When you send forward an application in writing for a new firm to come on to the list of approved borrowers, may I take it that you add to their application a recommendation with information as to your own inquiries concerning the standing of that firm?—I give such information as I can obtain, such as who the persons are, who their bankers are, and, in confidence, they tell me what their capital is

2116 As a rule, it would not be merely the sending on of an application, but there would be a recommendation on your part?—They may ask me whether I know anything why these people should not be put on, but I do not recommend

2117 You do not conjoin with the application a recommendation unless you are asked?—I may say, "I think that they might well be added to the list"

2118 The minimum amount that can be lent by you under the India Office regulations which govern you, is 50,000?—Yes

2119 If anyone wants more he has to take another 50,000?—That is so, it runs in multiples of 50,000

2120 Let us assume for the purpose of the question that the minimum of the first 50,000 is right, is it necessary to have multiples of 50,000 thereafter?—Having regard to the length of time, four weeks or five weeks, as the case may be, that we lend for, and having regard also to the fact that the firms are of high standing, I do not think there is any advantage in lending 75,000. Is that what you mean?

2121 That is my exact point. Might it not be the case that a firm wanted 75,000 and not 100,000?—It is very seldom that the point has ever been put to me

2122 Do you think there is nothing in it?—I do not really. It might be the case

2123 Your answer, I gather, had reference to the point of view of the borrower?—Yes

2124 From the point of view of the lender, the India Office, might it not just happen that they had 25,000 here and 25,000 there, and it might be convenient to them to divide it in that way after the first 50,000?—It might be, I do not say that sometimes it would not

2125 It never obtruded itself upon you from either the borrower or the lender?—No. They generally speak of 50's and 100's

2126 Does this business take up your whole time?—Entirely. I am there every day and all day, except Saturdays and Stock Exchange holidays

2127 As it takes up your whole time, your relation to the firm is not helpful in the business of the firm outside this particular business?—I scarcely have any other time whatever, the whole day is practically taken up with it

2128 And you cannot find time for any other work which the prestige that the Chairman referred to might bring?—I sometimes see a few clients in the office, and identify people at the bank, and write a few letters, but practically my time is entirely devoted to India

2129 Was that always so with you since, I think you said, 1904?—No, not always, but the work has enormously increased

2130 In which years—in the last three or four—take 1906?—I should think from about 1907 or 1906

2131 In 1905 you had a certain amount of leisure?—There were loans due every day as far as I can remember

2132 There must always be work, but there was not perhaps absorbing work, was that the position?—The work was lighter, we will put it, perhaps in those years than in the last four or five

2133 Do you advise as to the rates of issue of new loans?—As to the price of issue

2134 Have you to do with the issue of loans?—Yes, I attend at all meetings of the Bank of England with others when the price is discussed

2135 Your work is not then exclusively restricted to the lending out of surplus balances?—No. The new issue of stock would only occur once in a year

2136 But you do come in for that?—Yes

2137 With this pressure of work which you indicate, can you keep fully in touch with the market?—Fully

2138 Your work of itself is sufficient?—That is how I gauge my rate, by keeping in touch with the market

2139 For Indian purposes you do not keep in touch by non-India office work but by the actual work that you do for the India Office?—That is so

2140 (Mr Gladstone) Touching the question of your remuneration, do you care to give the Commission any information as to the estimated cost of your office and your establishment there in connection with the loan business? That has been referred to already, and you might like to say something?—I should say it was 1,700 or 1,800 a year—something between that. I could not say for certain

2141 Do you know the charge made by the Bank of England to private customers for lending money against Stock Exchange securities?—I do not think I do for certain, but it is generally believed that the charge is  $\frac{1}{2}$  per cent per annum, being  $\frac{1}{4}$  per cent for the bank and  $\frac{1}{4}$  per cent for the brokers

2142 Touching the list of securities, is not the system that has prevailed at the Bank of England about transfers generally considered antiquated and inconvenient by the general public?—Are you referring to the ordinary public—everybody?

2143 Yes?—I do not know, but I do not think so. I think it is an exceedingly convenient way of making a transfer. They have recently brought in transfer by deed of Consols

2144 (Mr Keynes) You have explained to us the practice on which the chief cashier at the Bank of England insists in order to satisfy himself that the transfer of stocks is in order, in your opinion is this elaborate practice of his a wise and necessary precaution?—I should have thought the evidence of a stock receipt was quite sufficient if signed by the transferor and also witnessed by one of their own bank clerks

2145 If he did not insist on this elaborate procedure, then there would be no particular objection to placing on your list securities inscribed at other banks?—I do not know. As far as that goes, there is the objection when the stock is transferred out of the Secretary of State's name

2146 Do you think these other banks could not easily give evidence which would satisfy any reasonable person of the fact of the transfer?—I think it would raise difficulties

2147 If these technical difficulties could be overcome, would it assist you in obtaining a good rate of interest to have your field enlarged by being able to accept additional securities?—I do not say that the rate would be improved, but I should certainly be able to employ some of the cash balances by the addition, we will say, of some colonial inscribed stocks

2148 Would it facilitate your business if, apart from technical difficulties, you were allowed to lend on such security?—I think it would a little

2149 I understood from Mr Badock that you do not receive authority from the India Office to lend for longer periods than six weeks?—No, it is four or five

2150 It is not often as long as six?—That is so

2151 And it is more often four or five?—That is so

2152 If they authorised you to lend for somewhat longer periods, would that appreciably affect the rate of interest you could earn?—It depends upon the period covered

2153 If in the course of a year there were occasions on which you could lend for a longer period, you could earn more, could you not?—I do not think so. It entirely depends upon the months that are covered. I think, on the average, this system is as good as any

2154 Do you mean that a person who is prepared to lend up to 10 weeks cannot get more over a number of years than a person who is only prepared to lend up to four or five weeks?—It would be very difficult to say. At the present moment, for example, over the 30th June, the end of the half year, money is very

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much wanted and I can get 4 per cent, and I am getting it for the first few days in July, although money for a week is  $3\frac{1}{2}$  and discount for three months is about  $4\frac{1}{2}$  or  $4\frac{3}{4}$ . But then when my loan falls due, perhaps on the 7th or 8th July, it is a speculation as to what money is going to be for the next month.

2155 I can understand that sometimes it pays you to lend for short periods and sometimes for long periods, but I should have thought that, if you had the power to lend either for short or for long periods according to which was the more profitable, that you would earn more than if you were tied down to one period?—I would have two options, do you mean, and instead of being tied down to four or five weeks I might have nine weeks or I might have 10 weeks?

2156 Yes?—I am afraid I have never looked at it in that light at all, or thought about it.

2157 You have not any opinion on the matter that you are prepared to give at the present moment?—That is so. It is quite a speculation as to what money is going to be in 10 weeks.

2158 I understand that you make all loans on a given day at the same rate to all borrowers?—That is so.

2159 At whatever time of the day you arrange it?—I get through, if I can, by perhaps 1 o'clock.

2160 What is your method? I do not know if you go to visit the borrowers?—I do go to borrowers.

2161 When you go to the first borrower, you will not have the information in your possession as to the rate at which you will be able to lend all that you can lend that day, will you?—I have found out all I can before I go to the first one.

2162 When do you go to the first borrower?—About half-past 10.

2163 By then you have settled the rate at which you are going to lend all the money that day?—Yes, I have made up in my own mind what is the right rate to ask and to accept for that month by ascertaining what daily money is, what weekly money is, what the bill rate is for about the period of my loan, whether the banks are buying bills like that, and so on.

2164 Having a figure in your mind you go round to certain approved borrowers, who might find that they could take a certain amount at that rate?—Yes.

2165 But by the end of the day you might find that you had slightly over-estimated the rate and you could not place all you had at that rate?—That has occurred, but it has only occurred quite recently. I have never, in my nine years, had anything over until the last few months.

2166 (Sir Robert Chalmers) That would be, how ever, because you were asking a good bargain for your principals?—That is so.

2167 (Mr Keynes) If you very seldom err in the direction of asking too much, would that not suggest that you must often err in the direction of asking too little?—No. I have found on some very few occasions that I have gone to a man and by great pressure I have got a certain rate from him, then I go all round the market and I find that I cannot get that particular rate anywhere else. So I have found that I squeezed him or pressed him too hard, and I go back to him and say, look here, I find the real rate is so-and-so, and I have put you down at so-and-so.

2168 That was the point I wished to reach. If you ask a higher rate at the beginning of the day than you can get later, so that some of your loans must be contracted at a lower rate, then you make them all uniform and go back to those at the higher rate and give them the lower rate?—Say I have got seven or eight people to go to, and I have done four of them at a certain rate, then I will make those other four give me my rate or else I offer my money elsewhere until I get that rate.

2169 Can you always get that rate in the end?—I have got it, with one or two exceptions.

2170 May I ask this for information. Is it the practice of other big lenders in the market to do all their business on a given day at the same rate?—I cannot answer for other people, but I should say so.

2171 (Sir Robert Chalmers) Always assuming that there was no catastrophe that had happened in the afternoon?—Quite so.

(Lord Faber) As regards that, our practice as a large country bank when we have money to lend is this. We send telegrams to three or four of the large discount houses in the morning to ask what they would lend bills at, there is generally a difference between them, but as a rule perhaps three of them are all the same and the fourth would be different, not necessarily the same one always, but one of them would differ.

(Witness) If I find I have got my rate from four people and I have got three other people left, I squeeze them up, and if they do not come in to the rate I take the money away and offer it elsewhere.

2172 (Mr Gladstone) You could give instances of that, could you not? There was a case, I think, of a loan that you made with the National Discount Company, they would not give you your rate of  $4\frac{1}{2}$  and you called the money in?—I constantly do that.

2173 I happened to go to see them that day, and I gave them the money and they found they had made a mistake?—They did.

2174 I should think you could verify the date, the rate there was  $4\frac{1}{2}$  or  $4\frac{3}{4}$ ?—I am constantly, very constantly indeed, employed in that way. It takes up a great deal of my time. When a firm, or firms, will not give me my rate, I have got to insist that money at the rate I want, and that takes up the majority of my time. The work may look a little on paper, but I assure you that a very great deal of my work is not seen on paper. I may have to go to eight or ten or a dozen, or perhaps even twenty firms, in order to lend my money, or to renew it when I am paid off by somebody who will not give the rate.

2175 (Mr Keynes) There is one question I should like to ask you with regard to your remuneration. At present, as I understand, your remuneration is proportioned to the interest earned?—That is so.

2176 So that in years of dear money it is a good deal higher than in years of cheap money?—Yes.

2177 And does not entirely depend upon the volume of business passing?—That is so.

2178 Would you think an arrangement, by which you were paid according to the volume of business you did, rather than according to the rate of interest earned, to be a fair one?—How would you gauge what was the work done? As I have just explained, a tremendous lot of work is invisible.

2179 I should gauge the work done by the amount of loans which you put through, apart from the rate?—The interest, after all, whether it is 4 or  $4\frac{1}{2}$ , what does it amount to?

2180 I am putting simply this point. When a suggestion of a fixed salary was put, you quite rightly suggested that it made no allowance for wide fluctuations in the amount of trouble, the present system takes account of the trouble, but it also takes account of something which is not concerned with you at all, namely, the rate of money, so that your income fluctuates through something which is not in the least under your control, and which does not affect the amount of trouble that you have. Is that system satisfactory to you?—It is more difficult to lend money in easy times than it is when money is wanted, although the remuneration would be smaller the work would be harder.

2181 In that case you get less remuneration when the work is hard?—It is very difficult to lend when nobody wants to borrow, and the remuneration is smaller.

2182 Is that system satisfactory?—It is rather. The system has been turned round several times. I believe in my father's time—he was also the India Office broker—I do not know what it was in my grandfather's time, in 1842—he had a scale, and if the rate was under  $1\frac{1}{2}$  per cent, he got  $\frac{1}{2}$  per cent, over  $1\frac{1}{2}$  per cent, and under 3 per cent, he got  $\frac{1}{3}$  per cent, and over 3 per cent, he got  $\frac{1}{4}$  per cent. In 1888 the scale was altered to make it a round 5 per cent, on the interest. That worked out almost the same. That

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continued till 1911, when it was altered to its present form—not on my suggestion

2183 (*Chairman*) And not to your advantage?—Not to my advantage, nothing like it

2184 The alteration was a reduction?—It was very much reduced, it is equal to a 60 per cent reduction, if you look at it, I mean the work for 10 millions of loans out is the same as it would be for four millions

2185 (*Lord Faber*) The largeness of the loans just lately has saved you, has it not?—Yes If my present scale went back to the years when my predecessor held the appointment, say 14 years ago, when he earned 3,800l a year, on my scale it would be 1,600l, when you work off the expenses there is not much left for the broker

2186 (*Sir Shapurji Broacha*) Are you always able to lend at one rate?—I always settle upon one rate

2187 Suppose you have two millions to lend and you have given one million at 3 per cent, and there are no takers at 3 per cent that day for the other million, and that you cannot lend it except at 2½ or 2¼, what will you do? Will you go to the first men and reduce the rate to them to 2½ in order to equalise?—I do not think that question has ever arisen that I have got such a huge sum of money to lend on one day I have never had such a case as that

2188 In business discounting, in the morning you discount at ¾ and in the evening you may discount at 3¼?—That is just possible

2189 The rates are always fluctuating, and you say, in order to equalise them, you go back to those you lent at a higher rate and reduce the rate to them?—I should not wait till the afternoon to do my work, that would be, in my opinion, speculating with my order I have got to do my work and not look to other men

2190 When a broker goes to a firm it takes him about an hour, or it may take only half an hour, but in the meantime the rates have gone back, and the other borrowers may say, "The market is lower to-day owing to some circumstances, political or otherwise, and so you have a difficulty in getting the same rate" I suppose, according to what you say, you will then go back to the first borrowers and reduce the rate to them?—That is only if I find one solitary exception, or possibly two, out of perhaps eight or ten houses with whom I have got money If I find that I can get the rate from the majority of people, then I hold out until I do get it I should never go back except in one solitary case or possibly two cases

2191 I lend money, and I know that I take different rates not only in the same day but in the same hour?—I think it is to the interest of India to stick to one rate

2192 I know what a farce it is to go to 10 or 20 people, because by the time you have got to the twentieth the rates have declined, of course they may have appreciated also Then in case they have appreciated, would you go back to the first borrowers and say they must give you the appreciated rate?—No I think if the rate was on the verge of appreciating I should have no difficulty in lending, and I should not have to go to so many people It very rarely occurs that I have to go back to one or possibly two when I have got 10 or 12 on my list and say, I find that the rate is so and so Of course, if I did not go back to him A would very soon find out what rate I have accepted from B, and then he would say, "You did not treat me fairly"

2193 If I go to the National Bank and discount bills at 2½ per cent and then I cannot get more than 2¼, would the broker who was already notified of the transaction at the first bank reduce it because the other loans could not be done at the same rate?—I have only reduced it where I have got the higher rate under great pressure, and the man has given it, perhaps not knowing what the rate has been

2194 (*Sir Robert Chalmers*) You are dealing with a limited number of permanent customers?—Yes

2195 To that extent, do you understand your position to be somewhat different to that indicated by Sir Shapurji in his recent questions?—I am confined to a certain circle

2196 And it is your interest not to snatch an exceptional profit from one of them to-day?—Quite so If A finds out that I have charged B 3¼ when I have charged him 3½, he might accuse me, and I think rightly so, of favouritism, and I do not think that would be in the interests of the India Office

2197 You are dealing in a world market as regards lending?—Yes

2198 Which would not necessarily apply to every market, perhaps those that Sir Shapurji had in mind?—That is so

2199 (*Sir Shapurji Broacha*) You have got 62 names on your list, but they are not all of the same status, are they, for instance, you would not consider a broker's firm to be of the same standing as the National Bank?—The small man's security is as good as the big man's

2200 (*Chairman*) The difference would be in the amount you lend?—Quite so

2201 Did you have anything to do with the deposits that were made to the banks?—I negotiated them with the various banks

2202 Did you select the banks?—No

2203 But you negotiated the terms with them?—I negotiated with these different banks and then reported to the Chairman what I could obtain, and I received my orders

2204 Was a list of the banks given to you to which you should go?—That is so

2205 Or were you authorised to go to any bank that you thought of sufficient standing?—No The banks were selected, and I was instructed what banks to go to

2206 (*Mr Keynes*) Was it left to you how much you would lend to each bank, or only the terms on which you should lend it?—Only the terms

2207 The amounts were not left to you?—No

2208 (*Mr Gladstone*) Do I understand that in those cases a particular bank was selected, or did you go round the approved banks in the same way as you did with the approved borrowers?—I went to the approved banks

2209 The name of a particular bank was not given to you and then you were told to get the best rate you could from them?—No I would go first to a particular bank and report the rate that I could obtain from them

2210 (*Lord Faber*) You only went to the banks that you had instructions to go to from the India Office?—That is so

2211 You did not choose the banks, but you went to the banks that were named to you?—Yes

2212 (*Sir Robert Chalmers*) You had an approved list of banks, as you had an approved list of ordinary borrowers, given to you?—Yes

2213 (*Mr Gladstone*) And you were not asked to go to one particular bank?—Only to ascertain the best rate

2214 (*Chairman*) It is possible that your answer to an earlier question may be open to misconception You were not instructed to go to one particular bank, but you were given a list of banks is that so?—First, I had an order for a deposit—will you offer it to so and so, and if the rate is not agreeable then will you offer it to so-and-so and so and so? I think that was the procedure

2215 There was a list of banks approved, as I understand, for this purpose?—Yes

2216 Assume that there was a deposit to be made, you were informed of the amount of that deposit?—Yes

2217 How was the rate of interest settled that was to be obtained on it?—I negotiated with these different banks, and I found out from them what was the best possible rate they would give, and reported it

2218 Therefore if you were told, for instance that the Secretary of State wished to place 200,000l on deposit, you would have gone to all the banks on your approved list and inquired of them what rate they would give you for it?—I went and saw the Chairman of the Finance Committee and discussed the thing with him, and he would instruct me as to the banks and the rate that I might accept



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Mr HORACE H SCOTT

[Continued.]

2219 He instructed you to go to a particular bank ?  
—Yes, to ascertain the rate

2220 And offer it to that particular bank ?—  
Quite so

2221 At a particular rate ?—First of all, to  
ascertain what that particular bank would give

2222 And if the rate was satisfactory, then the  
deposit was offered to that particular bank ?—Yes

2223 (*Lord Faber*) That bank being one out of  
the list ?—One out of seven

2224 (*Chairman*) The routine was not that you  
should necessarily inquire of at least three or four  
banks on the list, what their rates were when you had  
a particular sum to lend ?—I always found out what  
the discount rate was

2225 (*Lord Faber*) Supposing you had 10,000*l* to  
lend by order of your superior officer, did you then go  
to the whole seven selected banks and try what each of  
them would give you ?—Not always

2226 How would you decide which out of the seven  
to go to ?—I did not always try each one of the seven

2227 How did you make up your mind that 1, 2, 3,  
4, 5, and 6 would not give you a worse rate than 7, to  
whom you did not go ?—I would not go to the whole  
of the seven. Perhaps three or four banks on one  
particular day might say "I cannot give you more  
than such and such a rate"

2228 (*Chairman*) Did you ever make a deposit  
with one bank without having inquired of the other  
banks what they would give ?—I may have, when it  
first originated.

2229 If you did so, were you acting on your own  
discretion or acting on instructions ?—I had my  
instructions as to what rate I might accept

2230 Did your instructions also say, within the  
limit of the list, of which bank you were to accept that  
rate ?—I would have instructions that if I could not  
get the rate from A, I should offer it to B, then I  
would go back, and so forth. If I could not get it  
from B I would go to C

2231 (*Lord Faber*) In fact, you did not get the  
best rate, to your knowledge, out of the whole seven  
banks, you had instructions to get, we will say,  
3 per cent from one bank, and you went to that  
bank and took 3 per cent ?—I always obtained the  
best rate that could be got

2232 Without knowing whether the other six  
banks would give you more than 3 per cent ?—I did  
not go to all seven on one day, but very often the  
deposit was split amongst four or five banks, and that  
was a check upon the rate

2233 You did not put them in competition with  
one another on that particular job, if I may put it in  
that way ?—I always checked the rate before fixing  
it up

2234 (*Mr Gladstone*) In this case, two of the  
members of the Finance Committee were bankers ?  
—Yes

2235 And the Chairman of the Finance Com-  
mittee, under whose general authority you acted, I  
suppose with the Accountant-General, is also a  
banker ?—Yes

2236 What the Commission desire to know is  
whether when these amounts of money were put on  
deposit the best rate was obtained, and whether you  
were confined or ordered to give the deposits to a  
particular bank, or were bound in each case to ascertain,  
and did ascertain, the best rate from all the banks on  
the approved list. You might not have gone to them  
every day, but the rates would be known ?—Quite so

2237 You did not place those deposits with par-  
ticular banks in accordance with the orders of the  
Chairman of the Finance Committee, although as  
Chairman of the Finance Committee of course he  
had the responsibility of instructing you to make  
the deposits ?—Yes

2238 (*Chairman*) Did he leave you full discretion  
to make the deposit with any bank on the list, or did  
he indicate to you that you were to go to a particular  
bank on the list and offer that particular deposit ?—I  
had to go to a particular bank and find out what that  
particular bank would give, I would go back again

and report, and if it was not accepted I would have to  
offer it to somebody else and see what they would do

2239 Did the Chairman settle with you what you  
both thought was a fair rate ?—Yes

2240 The best rate you could obtain ?—Yes

2241 Did he then instruct you to offer the deposit  
to bank A at that rate, without inquiry as to whether  
bank B or bank C or bank D would pay you a better  
rate ?—As a rule there were three or four banks due  
for renewal of the deposit on a particular day, or if  
there were fresh deposits, say of half a million, it  
would be divided up, perhaps 200,000*l* here, 100,000*l*  
there, and 200,000*l* there, and would be offered in that  
way. By that means one got to know what was the  
best rate and whatever the best rate was that bank  
had it and the other bank did not have it. So I  
screwed them up to the best rate available

2242 In each case you formed your own judgment  
about what the rate should be, and if you secured the  
rate which you had decided to ask, you gave the  
deposit at once, is that it ?—I found out by competi-  
tion, putting one against another, what was the best  
rate obtainable, and then got my instructions from my  
superior

2243 You had in a particular case, we will say,  
three deposits falling due from banks A, B, and C ?—  
Yes

2244 Did you go to those banks and say, "What  
rate will you give me for a renewal of the deposit ?"—  
Yes

2245 If you had fresh money, you were instructed  
to go to another bank ?—Yes

2246 And ask them what rate they would give ?—  
Yes

2247 If one of the banks offered you less than you  
obtained from the others, what happened ?—I with-  
drew the deposit and offered it somewhere else

2248 And you got the higher rate elsewhere ?—  
Yes

2249 That is not clear from your early evidence, I  
think ?—I thought Lord Faber asked did I go to all  
seven banks ?

2250 (*Lord Faber*) Yes, so I ask still ?—I cannot  
say I went to all seven, but I might go to the majority  
of them \*

2251 (*Chairman*) You went, in your opinion, to a  
sufficient number really to test what was the best rate  
that you could get ?—The deposits were very often  
paid off by one because they would not give the rate I  
was asking, and then the money was redeposited with  
somebody else

2252 In no case, therefore—I think I had better  
put the question quite bluntly to you—did the Chair-  
man of the Finance Committee, who had to arrange  
these matters with you, and who was himself a banker,  
commit you to deal at a particular rate with his bank,  
unless you had tested that rate by making application  
to other banks ?—I always tested the rate if I had a  
deposit with that particular bank

2253 (*Mr Keynes*) Did you receive instructions  
from the Chairman of the Finance Committee as to  
which bank should have the first offer at the current  
rate of the day ?—I had instructions as to what banks  
to go to, and I went, perhaps, to the one which was  
first on the list

2254 I understand that if a bank did not give you  
a satisfactory rate you went elsewhere ?—Yes

2255 But in selecting the bank you first went to  
and gave the first offer to, did you act on the instruc-

\* I In further reference to Lord Faber's question as to  
why I did not always go to all the seven banks, I should like  
to explain that it was the policy to keep the amounts of the  
deposits with the banks as even as possible, so that if through  
deposits being called in three or four of the banks had less  
than the others, I would naturally go first to these banks and  
not necessarily to all the others provided the best rate was  
obtained from them

† When I had a deposit to make I saw the Chairman of  
the Finance Committee, and after discussion he stated that, if  
his bank was going to take any of it, the best rate he could  
give was such and such, but if I could do better elsewhere I was to do so,  
which of course I always attempted to do

The same remark applies to renewals of deposits.  
*Horace H Scott.*

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Mr HORACE H SCOTT

[Continued

tions of the Chairman?—My instructions from the Chairman were as to what rate I might accept

2256 Did you also have instructions as to which bank you should offer the loan on those terms?—I went to that bank first and then there may have been three or four that I went to afterwards

2257 Were those three or four named to you by him, or did you select them yourself?—The Chairman generally named them

2258 (Chairman) Do you not think it would have been better, when you had money to lend on deposit in this way, to have seen all the banks and said, "I have so much money to lend, what is the best rate you will give me?"—But then the deposits varied so much, sometimes there were 200,000l to put on deposit, sometimes 400,000l, sometimes 300,000l and I do not think it would have been advisable to tell all the banks how much money the Council had to put on deposit at one time

2259 Is that any objection to the course that I suggested?—These were exceptional deposits, and you would not offer a bank those amounts I think they went in amounts of about 100,000l apiece

2260 I do not mean that you would necessarily offer the whole amount to one bank, but that you would fix in your own mind the limit which you would entrust to any one particular bank at a given moment, and then, having that money to lend, you should have asked all of the banks whether they could take the amount that you were prepared to lend, or that you thought it safe to lend each one of them, and if they were prepared to take it, what rate they would give to you? Then you would have been certain that you would have got always the best rate that any of the seven banks could have given, would you not?—Yes

2261 I do not understand that the practice, as you have explained it, gave any guarantee that one of the other banks on the list might not on any particular occasion have given you a better rate of interest if they had had the offer. Do you think there was any guarantee of that?—I only went to such banks as I was instructed, in order that the amounts might be kept as even as possible provided that the best rate was obtained

2262 (Mr Gladstone) I suppose your action would have been affected to some extent by the amount of

the deposits which you knew were already out?—Exactly

2263 If, for instance, two or three of the banks had half a million or a million or more already?—That would be so

2264 You would not have gone to them, because they might have had enough money?—Quite so

2265 That might have limited your action on a particular day?—That very often was so. Perhaps I did not explain it clearly. Perhaps one bank had got a certain amount and another bank had not got quite so much

2266 (Chairman) If in any particular bank they had got the full amount that you thought it desirable to lend to them, you might treat them as not being available for the moment?—That was so

2267 Did you always ascertain what was the best rate you could get from any of the banks on the list to whom you were prepared to lend more money?—I think so, certainly

2268 Therefore on each occasion you would have got a quotation from every bank except those which had already got so much money that you did not want to put more with them?—I think that was so

2269 (Lord Faber) Then you did not receive instructions from the Chairman to go to certain banks?—I always received instructions from the Chairman. There were only four banks on, up to a certain period, and after that the number was increased to seven

2270 (Sir Robert Chalmers) Which were the first four?—The National Provincial, the Westminster, the Union of London, and the City

2271 That was in what years?—In 1909 to 1911, I think

2272 The others came on later?—The others came on later

2273 (Sir Shapurji Broacha) I suppose your Chairman is in the position of knowing the finest rate having so many people visiting him?—I should say so. He would know the bill rate probably better than I do

2274 (Mr Gladstone) Might I ask whether the fact of the Chairman being a banker himself, and knowing the market so well, would not be an advantage to the India Office?—I should think so, certainly

The witness withdrew

At the India Office, Whitehall, S W

### SEVENTH DAY.

Friday, June 20, 1913.

#### PRESENT

THE RIGHT HON AUSTEN CHAMBERLAIN, M P (Chairman)

LORD FABER  
LORD KILBRACKEN, G C B  
SIR ERNEST CABLE  
SIR SHAPURJI BURJORJI BROACHA

SIR JAMES BEGGIE  
MR HENRY NEVILLE GLADSTONE  
MR JOHN MAYNARD KEYNES  
MR BASIL P BLACKETT (Secretary)

SIR DANIEL MACKINNON HAMILTON called and examined

2275 (Chairman) I understand that you are here to-day as a representative of the Bengal Chamber of Commerce?—Yes, the Chamber have asked me to express my views, but my views do not necessarily commit them in any way

2276 You have submitted a memorandum to us, and I propose, as we have done with the other witnesses, to print that in your evidence (see Appendix XVI, page 518) Does what you have just said as to the

views of the Bengal Chamber, refer to the whole of your memorandum?—Yes

2277 Would you tell the Commission very shortly what has been your experience in matters relating to Indian finance and currency?—Only the ordinary business experience of 25 years in India

2278 We have had it in evidence that the large cash balances held in India and London of recent years were due to exceptional causes, I rather gather from

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Sir DANIEL MACKINNON HAMILTON

[Continued]

your memorandum that you would agree to that statement?—Yes

2279 And that you do not criticise the Government for the large amounts to which these balances have risen in recent years?—No, I believe that the balances might be larger

2280 I also gather from your memorandum that you are heartily in favour of the practice of selling Council bills and transfers in order to bring the balances to London?—Yes

2281 And also of the practice of lending the London balances out in the City?—Provided they cannot utilise them to better advantage in India

2282 Do you think that they might have been used to better advantage in India?—Yes

2283 I will return to that answer later I gather also that you think the Government has perhaps paid too much attention to capital expenditure on railways with a view to assisting the export trade, and has thought too little about the internal development of India?—There is so much money in hand that they can develop both railways and irrigation, which is so much needed for the internal trade of the country I do not think that they need starve the irrigation work

2284 In paragraph 10 of Appendix XVI (page 519) you speak of the "gamble in rain," so christened by "Sir Guy Fleetwood Wilson" I think he used that phrase in reference to the Indian budget, was that not so?—He applied it to the Indian financial system really

2285 What do you think he meant by it?—It means this, that the Indian Government never wants to borrow more than it can possibly help, whereas I say, by not borrowing, for every sovereign not borrowed it loses 20s worth of produce to India

2286 Does not the phrase mean that the realisation of the budget estimates depends upon the rain?—Yes

2287 That if there is a particularly good season there will be a surplus?—Yes

2288 And if there is a particularly bad one there will be a deficit?—Yes, but the deficit can be made up by borrowing

2289 I want, first of all, to get at the exact meaning of the expression "gamble in rain"?—Government make such a fetish of what they call the avoidance of debt

2290 In fact, I suppose, in preparing their financial statement Government budget in the expectation of a normal year, having to make their estimates at a time when the climatic conditions on which the character of the year depends cannot be foreseen?—What the Government look to is, Square your own accounts, that is all they look to, and they do not consider that they are losing the produce

2291 Is this your criticism—that they pay too much attention to balancing revenue and expenditure, and that they should be comparatively regardless of the amount of their revenue, but budget for large expenditure, relying on borrowing if the revenue fails?—What it amounts to is this, they lose a sovereign's worth of produce for every sovereign they do not borrow

2292 Is it your criticism that they ought to carry out a steady programme of development works irrespective of budget receipts?—Yes, irrespective of the rainfall, budget receipts, and anything else

2293 But you do not suggest that they can eliminate the consideration of the rainfall from their estimates of revenue, do you?—That is my contention

2294 You think they can?—Yes

2295 I was using the word "revenue" as meaning the produce of their taxes?—I will explain what I mean, if I may, by means of this diagram,\* which is illustrated with photographs, and show you how they may do it These are photographs of a property of mine in Bengal The surplus crop of the year is represented by this heap of rice, that has to find its way to Europe, and those are the bags going to Europe On the rice reaching Europe, it is turned

into gold coin, the gold coin passes in turn through the council chamber into the Treasury balances, the latter are already chock full, so it passes on, and it eventually creates a water tank for an irrigation canal That is what happens when Government gets the gold When Government does not get the sovereigns by means of the council chamber, the gold escapes the Government comes round this other way, and lands for circulation in India, or goes into the hoards of the people—it does not matter which, it becomes dead there, as you can see When a bad year comes round, the export trade is wiped out, and there is no gold flowing towards Europe at all To keep this irrigation work going the Government comes into the market and borrows European capital, which flows from the Treasury and so keeps the irrigation canals going In that way the irrigation canals and the railway programme are going on all the time, whether the rainfall is good or bad In the following year the export trade begins again, but instead of the sovereigns then flowing into the Government chest, they flow towards Europe and repay the European capitalist, he is paid off By one of these two means the irrigation canal or the railway is kept going all the time, and therefore you can keep your programme going, whether there is a rainfall or not

2296 (Sir Ernest Cable) You mean that you would make up a deficit by borrowing?—Yes, and the borrowing is paid for by the next good year In that way India gets the canals for nothing

2297 (Chairman) I think I understand your meaning to be that the development programme of India ought to be secured by borrowing freely whenever necessity arises, and ought not to be in any way checked by a deficiency of revenue in a particular year?—Exactly, and your borrowing can be paid off next year from your surplus

2298 What therefore you mean by that gamble in rain is that at present if the rains are good the revenues increase and there is a surplus?—Yes

2299 And also there is a considerable development of work?—Yes

2300 But if the rains fail then there there is no surplus, there may even be a deficit, and the work stops?—Yes, and India suffers from restricted development All that can be avoided by this system which I have explained

2301 Now will you explain to me this sentence in that same paragraph 10 of Appendix XVI "Some years ago Government, with a strong hand, suppressed "rain gambling in Calcutta"?"—Sir Ernest Cable knows what I mean

2302 But I do not, so perhaps you will explain it to me?—Certainly In the hot weather we get showers perhaps every three or four weeks, and as the rains approach, the probability is that those showers will become more frequent There was a gamble whether the rain would fall on a particular day or not There was a little tank with a spout fixed up on the top of a house in the Burra Bazaar of Calcutta, which is the big native market place, and if the rain fell sufficiently for this spout to run, it was considered to have rained, and the man lost or won his bet accordingly This gambling became such an evil in Calcutta that the Government stepped in and killed it

2303 That was pure betting as to whether it would rain on a particular day or not?—Exactly

2304 Do you think that that has any parallel to the financial procedure of the Government?—I am using Sir Guy Fleetwood Wilson's own phrase, he calls it a gamble in rain, and I want to kill that

2305 In order to kill it it seems to me that you gave it a bad name and thought that would hang it?—I hope it will

2306 With regard to the Paper Currency Reserve, is it your view that the invested portion of the reserve is very small in proportion to the total circulation, and that the amount in gold is too large?—The amount of gold is far too large Supposing they keep in hand a sufficient supply of silver to pay off to-morrow every 10-rupee note out at present, they would still have 13 millions sterling in their pockets lying idle, which could be freed to-morrow for development purposes,

\* Not printed

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Sir DANIEL MACKINNON HAMILTON

[Continued

and yet still, as I say, leave enough silver for every 10-rupee note that is out

2307 In making that calculation I understand you hold that the gold should not be taken at its gold value as at present, but at its rupee value?—Yes, because the Indian people cannot claim gold. Silver is the legal tender of the country, and all they can claim is silver, and therefore all that gold is simply lying dead and useless

2308 You would treat that gold as the equivalent of the number of rupees which could be coined with the silver which it could purchase?—Exactly. With that 12 millions of gold you can coin about 20 crores of rupees

2309 I gather you hold the view that with the gold so set free you should proceed with the development of railways or with other capital expenditure?—Yes, and for this reason. If you spend those 12 millions sterling in locomotives or railway wagons or anything else you like in England here, in that case you return that gold to Europe, you immediately relieve the money markets of the world, and in addition to that you increase employment in Europe here. If you order 12 millions' worth of rolling stock you can see what a tremendous boom in trade that would create

2310 You said the first effect would be to relieve the money markets of the world?—Yes, it will place 12 million sovereigns in the Bank of England to begin with

2311 I take it, therefore, you would regard the condition of the London money market as of the first importance to India?—It is immaterial whether it is in England or in India, so long as the Empire has got the gold. The Empire still keeps this gold and does not part with it, the gold comes to England and remains in the Bank of England. At the same time you create employment by ordering 12 millions' worth of railway material in England. You can see what a tremendous relief that would be to unemployment

2312 I want to get your view exactly, if I can. One of the criticisms directed against the Secretary of State has been that he has thought too much of the London market, I gather from what you have said to me just now that you think the condition of the London money market is of great importance to India, and that anything which relieves stringency here directly serves Indian interests, am I right?—Yes, that is so, in this way—that the money set free develops India. It helps both, it helps India and it helps you

2313 I think you hold that the Government of India ought to encourage the use of a paper currency by the people of India as far as possible?—Yes, it ought to encourage the use of a paper currency, but then it is not purely a paper currency, you have got the silver reserve against it, and so it is backed up by silver to the extent required

2314 For metal currency purposes?—It is practically a silver currency, because the paper is backed by the silver

2315 But for actual use in circulation, would you encourage the use of a paper currency?—Whatever the people want, let them have it. If they want paper, give them paper, they can cash that into silver whenever they want to do so

2316 Does that apply equally to gold? If they want gold would you say, give them gold?—No, do not give them gold. For every sovereign of gold you give to the people, India loses a sovereign's worth of produce, and you get nothing in exchange

2317 That is the key to your memorandum?—Exactly

2318 In your opinion, gold in India lies idle, whether in currency or in hoards?—In any case India loses one sovereign's worth of produce, and that is not the end of it. If you invest that sovereign in irrigation works, say, at an ordinary 5 per cent return—as a matter of fact, irrigation works give a 10 per cent return, and railways give 4 per cent or 5 per cent—but taking an average of 5 per cent, that means that that sovereign in 14 years has doubled and become two sovereigns, because money doubles in 14 years at 5 per cent. But that is the smallest part

of the loss. If that sovereign is sunk in irrigation works, it creates 100 per cent for India in food—I have got the Government figures here to show that every £ spent on irrigation creates a £'s worth of food. So in the 14 years you gain 14 sovereigns in food, plus the 2£ in the way of capital, therefore, for every sovereign lost to India, that is, which has been put into circulation or put into hoards, India loses 16 golden sovereigns. That seems a bold statement to make

2319 If I understand you rightly, what you say comes to this, that if India takes payment in gold she takes payment in something which is only of use for the purpose of exchange?—Exactly so

2320 Which, if not so used, is wasted?—That is so

2321 But if India takes payment in goods, in railways, or in irrigation works, it then gets an actively productive force?—That is my meaning exactly

2322 It not only gets the value of the gold which it might have had?—But it gets 16 sovereigns over and above in 14 years

2323 Through the development which has taken place?—Exactly. In 14 years that sovereign gains 16 sovereigns, so for every sovereign India loses she loses 16£ of produce

2324 Lord Faber suggests that the payment of labour has got to come out of those sovereigns?—That does not matter. The people are fed all these years

2325 (Lord Faber) By the Government?—Perhaps you have read Ruskin's "Unto This Last". He makes the statement there that the whole of wealth is life. That is an economic fact. Credit is no use until you turn it into cash, cash is no use until you turn it into food, and food is no use until you turn it into flesh and blood

2326 (Chairman) The general effect of this evidence is that in your opinion it is of the highest importance that the Government should use all the funds it can for the purposes of development?—Just so. But it does not require to use all that it has got, or anything like it. It has got 60 millions of gold in its pocket now, and does not require to use a fourth of that

2327 I think you admit, however, that there must be a silver reserve for the paper currency?—Exactly, and I am not touching that, it has got that in either case

2328 And you admit also that Government must have a gold reserve for the exchange?—It must have the Gold Standard Reserve

2329 At what figure do you think the Paper Currency Reserve ought to stand?—You need not take a single sovereign or piece of silver out of your currency reserve. You can do what I say without touching your reserves in any way under this system which I have explained to you

2330 I understood from your memorandum that you propose to take money out of the Paper Currency Reserve?—But the Treasury fills up again in the next good year. The money flows into the Treasury then, but in the bad year the flow into the Treasury stops and you draw from the London money market. Then the good year comes along again and you repay the London money market, in that way paying off your debt. In the meantime you have got your railway for nothing

2331 I cannot follow the process by which anybody gets a railway for nothing?—You do get it I assure you, and you get not only one but you get as many as you want. You have 12 millions in hand now, have you not?

2332 What reserve are you talking of?—The surplus currency reserve. You have got 12 millions in hand there now, have you not?

2333 (Sir Ernest Cable) Do you mean in addition to what is required to cash every rupee note?—Yes, is that so or not so?

2334 (Chairman) That is what we are wondering about?—Perhaps some of the official gentlemen will confirm my figure

2335 How do you get at that figure?—That is the difference between the actual value and the paper value. In the Government accounts the sovereign is valued at

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SIR DANIEL MACKINNON HAMILTON

[Continued

15 rupees, whereas with the sovereign you can buy 22 rupees

2336 Then the 12 millions of which you are talking is the difference between the gold written at 15 rupees to the sovereign, and the gold written at, say, 22 rupees to the sovereign?—Exactly

2337 (*Mr Keynes*) You are not proposing both to turn the gold into silver and also to invest it, are you?—Yes

2338 You really are proposing to do both?—Yes, I am going to do both. I am getting double power

2339 With the same gold?—With the same gold

2340 But after you have invested the gold you no longer possess it?—I have shown you how it comes back again. You keep your Treasury intact. I would like the gentlemen all round the table to understand this before going any farther. (*Referring to diagram*)\* These are photographs of my place at Sunderbund

2341 Is this to explain how you bring in the reserves?—This is to explain how you never tap your reserves at all. This photograph shows actual India at work, and that shows India's surplus stock, you see it piled up in that little heap

2342 (*Sir Ernest Cable*) That is the profit?—Yes. Here is my Indian merchant coming round to buy it. They clean it, you see, before they take it away. There is a man there with a fan in his hand, that is how they clean it

2343 (*Mr Keynes*) What is the next step?—They bag it, and I have shown here the bag going to Europe, and there the European market. Then gold comes back in payment for the produce. The gold coins pass through the Council Chamber and right through the Treasury reserves, which are chock-a-block now, and then go to create an irrigation tank, or a canal, or a railway

2344 That is to say, these sovereigns are spent?—Yes

2345 So now the Government has no sovereigns at all?—It has got the same stock it had before

2346 But it has spent them?—No, they are there. This is the reserve as it stands now

(*Sir Ernest Cable*) But that is not the old gold

2347 (*Mr Keynes*) And the new gold that has come has now been spent?—The produce is turned into gold in Europe, the reserve as it is now is chock full of gold, the sovereign therefore passes through, leaving that gold as it is, and is turned into an irrigation canal

2348 It has passed into the irrigation canal?—The gold has

2349. By being spent?—Yes

2350 So the Government has so longer the gold?—It has the gold, and I want to show you how it gets it back again

2351 By a further stage does it get it back again?—The next year is a bad year, and the export trade is stopped. In that year the Government borrows in Europe and the gold comes back from Europe. It passes through the reserve and still leaves that intact, then it comes out and keeps the irrigation works going and also your railway

2352 (*Sir James Begbie*) In a bad year does the Government borrow in London, or where?—They do not borrow, but I say they ought to borrow

2353 (*Sir Ernest Cable*) This diagram of yours illustrates the ideal, does it?—This is what might be. What actually happens when Government stands out in the market and does not borrow, is that the gold escapes them. If the Government raise the exchange to 1s 4½d, the banks will not buy the gold.

2354 (*Mr Keynes*) They build the irrigation canal out of the money they eventually borrow in London?—Yes, and I show you how they repay it. The next year the gold comes back, escapes the Government, and, landing in India, passes into the currency, or into hoards, it does not matter which, but it does nothing that a paper note would not do.

2355. When the Government spends the gold which

it has got in its reserves, that also flows into the same source, does it?—No

2356 Where does it go then?—In labour

2357 Into the pockets of the persons who make the tank?—Yes, it has created a tank

2358 Just as it goes into the pockets of certain other persons in other circumstances?—Yes. When the export trade stops there is no gold going round at all, but the export trade begins again when the good year comes and the gold flow begins again with it. If the gold escapes the Government it lands in India, and in the bad year the Government draws from Europe, but not in the next good year, which fills up the European chest again, and as it pays off Europe keeps your tanks going

2359 (*Sir Ernest Cable*) This is new to me at the moment, I must say I cannot resist the feeling that you are using the money twice over?—And you are using it twice over, that is what I want to do

2360 Can we all go on using money twice over?—It is this way. You have 12 millions in hand now, say you build a railway with it, and when you build your railway suppose you sell it, with the gold you get you build another railway and sell it, when you sell that railway the gold comes back, and when it does come back you build another railway and sell that, and so on indefinitely

2361 (*Mr Keynes*) To whom do you sell the railway?—To anybody who wants to buy it

2362 What do they give you in return? I can understand the process by which you build a railway with gold and then sell that railway for gold?—You get the gold, the price of the railway

2363 Is it simply a system by which the Government builds railways and then sells them to private persons?—Yes, in that way that 12 millions will make railways indefinitely

2364 Only so long as the private persons can be found to buy the railways?—Exactly; but if private persons do not want them India keeps them herself

2365 In that case she can only build one?—No, she goes on indefinitely

2366 But unless private persons buy that railway she has no money to build a second railway?—I cannot follow

2367 (*Chairman*) Will you look at paragraph 6 of Appendix XVI, page 518? You say there, under the head of Treasury Balances, "The Treasury balances remaining in India should be freely lent out in India to first-class banks?—Yes, that is so

2368 Your opinion is that the Treasury balances are kept at a higher figure than is required by the needs of the Indian Government?—I understand that that is so. I understand very often that large sums are in hand, but they will not lend them out unless they get the full bank rate; for instance, if the bank rate at Calcutta is 7 per cent, the Government will not lend to the banks unless it gets 7 per cent

2369 I think that in paragraph 7 of supplementary note A to Appendix XVI (page 529) you suggest, assuming the bank rate in India to be 7 per cent or 8 per cent, that the Government should lend these balances at 1 per cent below the English bank rate?—Yes

2370 Would that not be conferring a very special favour on a very small class of the community?—I do not think so, because this is money that would be lent to the trades, and the whole country would benefit

2371 But they will not have sufficient money to lend to every possible borrower?—It depends on the amount of the reserve

2372 Can you conceive of any reserve that would enable them to lend to every possible borrower?—I understand that the reserves are generally big enough to lend to the banks

2373. Then the banks to whom it was lent would be receiving very favourable treatment?—They would borrow at 4 per cent, and re-lend at 5 per cent, which would mean 1 per cent.

2374. They would re-lend to certain people at 5 per cent?—They would re-lend to the trade—to whoever wanted it. In that way trade benefits and the country develops.

\* Not printed

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[Continued]

2375 What I put to you is that they would not have enough to lend at that special rate to all the people who came to them?—Of course, if they have not got the money they cannot lend it, but they can have the money, as I explained, by this system of mine

2376 In that case they would have to pick out certain clients who should have money at 5 per cent, while to other clients offering the same security they would be charging 7 per cent or 8 per cent, is that not so? Perhaps I do not make myself quite clear?—I do not quite follow

2377 The assumption is that the Indian rate is 7 per cent or 8 per cent, that the Government then lends, we will say, a million of money to certain banks at 4 per cent on the condition that those banks shall lend it out again at not more than 5 per cent?—Yes

2378 To the extent of that million, the banks will lend on good security at 5 per cent?—Yes

2379 But the moment that million is exhausted they will have to charge 7 per cent or 8 per cent on the same security?—Not necessarily, if they have got 59 millions more

2380 The moment the money placed at their disposal is exhausted, they will have to charge the higher rate to any other client?—No, give them another million, as trade requires. The Government have 59 millions now in their pocket, give trade another million on short notice

2381 Is it your view that the resources of the treasuries are inexhaustible?—Yes, inexhaustible

2382 What do you mean when you say in paragraph 6 of Appendix XVI (pp 518-9), "Personally I should like to see more taken from the people in the same way, for, if the Government does not take it, the people's creditors will." Do the words "in the same way" refer to taxation?—Yes. The Government and the people are one, and whatever the Government take they give back in another form. If they take it in the form of a railway, they give it back in military services, or in sanitation, or in medical services, or in anything of that sort, it always goes back again

2383 You think, in fact, the Indian Government will spend the people's money more wisely than they will spend it themselves?—Undoubtedly so

2384 In paragraph 7, headed "The Gold Standard and Paper Currency Reserves," you say that the Gold Standard Reserve ought to be held in London?—That is my view

2385 Because it is in London that it will be wanted?—Yes

2386 You see "no objection to investing the greater portion of the Gold Standard Reserve in easily realisable gold securities, not putting too much into one basket"?—That is so, but I go beyond that, and I say you can invest the whole, if you want to do it. You do not want to do it in fact, but if you do want to do it, you can invest every sovereign and you can keep the sovereign in your pocket. That seems rather curious

2387 That is a point I wanted to put to you. In your opinion it is not necessary to keep any part of the gold reserve in bullion, is it?—It is coming in all the time. You pay it out at one end of the chest, and it is coming in at the other end

2388 But you do think it necessary to keep a sufficient amount of Paper Currency Reserve in bullion so as to be able to redeem the notes which might be presented?—Yes, and that you have now

2389 Together, I think you say, "with a safe margin for emergencies"?—Yes

2390 You go on to say "using it to supplement the Treasury balances as required by trade", is "it" the margin which you keep for emergencies?—It is that, or as much more as you like. It is really as much as trade requires. You have 59 millions in your pockets now, and you can give trade one, two, or three millions

2391 Would you mind looking at paragraph 8 of Appendix XVI (page 519)? There you say, "With regard to the currency reserves, as much silver coin as is likely to be required to encash currency notes presented to Government for payment, should be kept in India, with a safe margin for emergencies, using it

"to supplement the Treasury balances." What is "it" there, is it the whole of the money so kept, or is it only the margin which you reserve for emergencies?—You can use both, say, the whole, as a matter of fact, it goes out at one end and comes in at the other end

2392 And in paragraph 16 on page 521 you suggest that some form of Government bond might be created, to be kept in the Paper Currency Reserve as part of its investments, I understand?—Yes

2393 To represent the money spent out of reserve on capital expenditure?—Yes

2394 Do you think that in case of a sudden demand for rupees there would be time and opportunity to convert such bonds into metal?—Yes. As I have been trying to explain, the chest never need be emptied by a single sovereign, by the Government surpluses, or by borrowing you can keep the Treasury always full. What you borrow from the public this year you repay next year out of your surpluses

2395 But suppose they had not a surplus next year?—Then just wait till the year after

2396 They would borrow again?—Yes

2397 In fact, their expenditure ought not to be conditioned by their income?—No. A surplus is bound to come sooner or later, otherwise India would have burst years ago

2398 You would borrow boldly?—Borrow boldly

2399 To whatever extent might be required?—I would borrow boldly at one end of the Treasury, and as your good years come round you repay what you have borrowed

2400 In fact, as I understand, you would start with the consideration of what it was desirable to do if you had limitless money?—Yes

2401 And then you would do it?—Yes, go through with it, thick and thin. You can do that and still keep your reserve Treasuries, both your Gold Standard Reserve and your Paper Currency Reserve, chock full. Is that so or is it not so?

2402 I think I am here to examine you, not to be examined?—I mean to say that, if I am wrong, I want to know where the fallacy is

2403 I understand your view is that gold in circulation—I am not now speaking of gold that is hoarded—is wasteful?—It is all the same whether it is hoarded or whether it is used as currency

2404 Is it as wasteful in circulation as if it was hoarded?—It is, in this respect. For fertilising purposes, gold of course is useful, but paper, or the silver currency which India has, fulfils exactly the same purpose. The Government collects this sovereign through Council bills here in London and pays out 15 rupees at the other end, those 15 rupees will fulfil exactly the same purpose as if the gold coin were kept in circulation for fertilising purposes

2405 Therefore, the paper or the silver has all the advantages of gold in India but gold has advantages for use outside India, is that your view?—Just so, you use the sovereign here to develop India

2406 I would like to ask you incidentally whether you have formed any opinion of the extent to which the gold which has gone into circulation in India, has been hoarded, or is being hoarded?—I saw some figures the other day to the effect that in the last 10 years the Government had paid out from the Treasuries 47 million sovereigns

2407 What I wanted to get at was whether your experience led you to form any view as to the proportion of that sum which remained in circulation?—In India I never see a single sovereign. I can get them at the bank if I want to, and I change my spare rupees into gold to come home with—I can always change them at the bank—but you never see gold in circulation in India, at least I never see it

2408 (Sir Ernest Cable) In Bombay and the Punjab sovereigns circulate?—Yes they circulate in the Punjab, but I am speaking of Bengal

2409 (Chairman) Should I correctly represent the idea which you have been trying to convey to the Commission if I said that you regarded gold in India only as a cheque which could be drawn upon Europe?—Exactly

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[Continued

2410 And which would be useless until it was drawn and honoured?—Exactly, until it is drawn India never receives the equivalent in produce. Since 1835 India has imported about 300 million sovereigns which are still lying uncashed.

2411 I think your view is that the Secretary of State ought to sell his Council bills, not only freely as he does, but at such rates as would prevent gold ever going to India?—He should sell at 1s 4d to the rupee, that will secure him every sovereign.

2412 Your view being that he should intercept all gold that might be drawn to India?—Yes.

2413 He should frame his rates so as to prevent gold being shipped?—Exactly.

2414 I think you said to me just now that you saw no necessity for keeping any bullion in the Gold Standard Reserve, if I am wrong, please say so?—My view is that, when you are drawing out from your Gold Standard Reserve, it is coming in at the other end, so that your Gold Standard Reserve remains untouched.

2415 What is the object of the Gold Standard Reserve, in your view?—To ensure the value of the rupee.

2416 To maintain the par of exchange?—Yes.

2417 Do you not think for that purpose it is necessary to have an immediately available sum in reserve in gold?—Yes, and you have 60 millions in reserve now.

2418 Not in the Gold Standard Reserve?—But you have altogether.

2419 You are taking the Paper Currency and the Gold Standard Reserves together?—Yes. You have 20 millions in the Gold Standard Reserve, I think.

2420 The Paper Currency Reserve has a different purpose to serve?—Exactly, but that does not matter. It is a matter of accounting, really.

2421 Are you not setting up a reserve to redeem your notes, and then counting that reserve as available to maintain exchange? If it is wanted for the one purpose it will not be available for the other, will it?—Yes.

2422 Can it at the same time be available for both?—Yes, by borrowing. You draw from one end of the chest, and borrow and fill up the chest at the other end.

2423 At the moment when you would naturally call upon the Gold Standard Reserve to maintain the exchange, what do you think the effect of large borrowing would be?—You need not make your borrowings large, you can borrow every day, if you like.

2424 Suppose you borrow every day, what do you think the effect on the exchanges will be?—Do you mean the effect on the Indian exchanges?

2425 Yes. Suppose the exchange is falling, and at that moment the Indian Government is borrowing freely and has no gold reserve?—The exchange cannot fall below 1s 4d.

2426 Why?—Because the Government has got the gold to ensure that.

2427 I thought you said the Government need not have any gold, but that it could borrow instead?—It borrows but then it fills up the borrowing in the good years.

2428 If the Gold Standard Reserve were used as you would wish, it would be largely utilised for reproductive works in India?—Yes.

2429 If a crisis came, and it was needed for the maintenance of exchange, am I right in supposing that you assume that it would be possible for the Government immediately to borrow on the reproductive works so created?—Yes. You have 12 million sovereigns in hand just now, which is more than India wants for reproductive purposes, you have that in the difference in the exchange alone, and India does not want it at the present moment. In addition to that, you have got 48 millions in hand available to maintain exchange.

2430 The 12 millions are the difference between the gold value of the Currency Reserve and the rupee value?—Yes, and India does not want all of that just now.

2431 Therefore your first proposal will be to diminish the Currency Reserve by lending 12 millions?—I mean to say, lend as much as is required. We do not want 12 millions, two or three millions will be enough just now.

2432 By whatever amount you do require for your immediate development programme then?—Yes.

2433 Suppose that were done and we had exhausted that reserve in the course of time, then we should come to the Gold Standard Reserve?—Yes.

2434 I understood from Appendix XVI that you thought a large portion of that also might be spent on reproductive works?—Yes.

2435 Is that because you think it can never be wanted for the maintenance of exchange, or is it because you think that even in that form it will be available for the maintenance of exchange if wanted?—Yes, because I should pay it out at one end of the box, and it comes into the other by borrowing, so the box is always chock full.

2436 Is your argument based upon this, that the power of India to borrow for reproductive purposes is unlimited?—It is unlimited so long as she increases her productive works. The more she increases her productive works, the greater her credit is, and the more she can borrow as wanted.

2437 But the power to borrow is irrespective of the condition of trade at the moment, or of the state of the London money market at the moment?—She would only borrow when her trade was bad and when she had no surplus in her pocket from a good year.

2438 (*Mr. Keynes*) Do I understand that you want to spend money out of the Gold Standard Reserve for building railways?—That is possible. I do not want to do so.

2439 You want to spend out of it for reproductive purposes, and then you would replenish it by borrowing?—Yes.

2440 Why should you not borrow right off and leave the Gold Standard Reserve alone?—We do not want to borrow. We have got 12 millions of gold in our pockets now, and all we want is three or four millions of that, so why should we borrow?

2441 (*Chavman*) Now may I return to another subject, the question of the gold currency? In paragraph 22 of Appendix XVI (page 523), after quoting the opinion of the Fowler Committee in the preceding paragraph, you say events have falsified the view that the hoarding of gold would not be materially increased, do I gather that you opinion that the hoarding of gold has been materially increased is based on your personal experience in Bengal?—No, I am basing it on the Government figures.

2442 Those figures show the amount of gold which has gone into circulation, but are there any figures which show the amount of gold which remains in circulation?—There is nothing to show that—absolutely nothing. I understand that the Government figures show that India has imported more gold and less silver than before.

2443 You are not, I think, favourable to the establishment of a mint in India?—As I say, I am totally against gold coinage for India anywhere, either here or anywhere else, and therefore I could not favour a mint.

2444 That, I think, is a little more than you have said hitherto. I understand your view that a gold coinage is a wasteful use of gold is not confined to such conditions as now remain in India, but is general?—It is general, because every sovereign in circulation means that India has parted with some of her produce and has got nothing back.

2445 With regard to the loaning of money to the banks, the Government, I think, already have considerable balances with the Presidency banks?—I suppose they have, I do not know what they have really.

2446 Do you fix any limits in your mind as to the amount which they should lend to the banks under such circumstances as you have foreshadowed?—With the enormous gold reserve they have, they might as well give to trade all it wants. Even then there would be plenty left.

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[Continued

2447 Would you ask for any security from the banks?—Not from banks like the Presidency banks. If necessary they might be asked to secure it, but I do not think it is wanted. From the exchange banks like the Chartered, the Hong Kong, or the National Bank of India, or from the Presidency Bank of Bengal, you would not want much security, but let them give security, certainly.

2448 Some criticism has been raised on the action of the Secretary of State in London in lending money without security to the first class banks here, but you do not think there is any force in that, apparently?—If it is at short call, you can get it back whenever you want it. I do not think there is much in that. If you want security, take it, certainly.

2449 Suppose the Government, for purposes of trade, had lent large sums to the Presidency banks, then suppose they wanted the money back, do you think that the last state of the Indian market might not be worse than the first? Trade would have been helped and encouraged by the large sums lent by the Government, but by the Government suddenly coming in and recalling all those sums, might that not produce a very serious financial crisis?—I do not see why Government should come in when they have got 50 millions of gold behind them. There is no occasion for them to come in.

2450 Then really you do not see any reason why these balances should only be lent on short loans?—Lend them on short loans and call them in when they are wanted.

2451 There is no object in lending it as call money, unless you can call it in?—Certainly not, but there is no reason why you should call it in with 50 millions of gold at your back.

2452 Do you think it would be unsafe to lend it otherwise than as call money, or for short periods?—As a matter of business, one likes to have money on call if it should be wanted, but I cannot imagine how it should be wanted with 50 millions behind you.

2453 It is an excess of precaution, and is not really required for safety?—Certainly.

2454 I was going to ask you why you prefer that loans should be made from the balances, rather than from the Paper Currency Reserve?—That is immaterial.

2455 I think what you said to day was that you would lend from either or both?—It is a matter for the Government of India, really. My idea was that the Treasury would be the department in touch with the public, and you should just have one department in touch with the public, with the reserves placed at the disposal of the Treasury if they wanted so much.

2456 The object of all this is to keep the available loanable capital in India, is that so?—Yes.

2457 Has it occurred to you that something of the same kind might be done by the extension of the powers of the Presidency banks, if, for instance, they were given power to borrow temporarily in London when there was a keen demand for money in India?—I do not see why they should come to London to borrow if the Government has so much gold behind them.

2458 You say the Indian Government is closer at hand and ought to do the business?—Undoubtedly.

2459 Now I turn to the question of the State bank. Are you in favour of the creation of an Indian State bank?—Not necessarily. I do not see that a State bank is necessary. What I want to do is to finance the internal trade, whether that is done by a State bank or by the Presidency banks does not matter. If it can be done by the Presidency banks, and I think it can be, let it be done by them. Apart from that, I do not see why a State bank is wanted.

2460 In paragraph 34 of Appendix XVI (page 52b) you deal with the financial organisation of the India Office. You say there very clearly that there is "absolutely no reason for thinking that the Finance Committee of the India Office have ever deliberately made the interest of India subservient to the interests of the London banks and financial houses," but you think it would look better, "in the fierce light which beats upon the throne, if London bankers did not

"have the ruling voice in the management of India's finances and cash balances"?—Yes.

2461 Then you make a suggestion as to the composition of the committee, which should include one London banker, I think?—Yes, in order to get the benefit of his experience—that is all.

2462 You are of opinion that the Secretary of State must have expert advice on matters of that kind?—Undoubtedly.

2463 And that he could not rely entirely upon such advice as he could expect to receive from civil servants?—I do not think he ought to. It is so large a subject that he should get all the experience he can from London bankers and Indian bankers—indeed, from all round.

2464 In fact, your object in framing this suggestion has been to secure as representative a body as you could of all interests concerned?—Yes.

2465 Without giving a predominant position to any of them?—Still retaining for the Indian representatives the power of lending balance in India. I suggest there should be one London banker on the committee, and all the other men should be interested in India, not in London. That would secure that India's balances are used for the benefit of India. If London preponderates on the committee, it would look—I do not say it does—as if London might get the preference.

2466 You have seen, I think, a copy of the letter addressed to the Commission by the Bengal Chamber of Commerce?—Yes.

2467 Have you any observations you desire to make on that letter?—The only observation I make is that I strongly object to the coming of a single sovereign, even for sentimental reasons. A sentimental sovereign means the loss of a sovereign's worth of produce to India.

2468 (*Sir Ernest Cable*) The Chairman asked you a question with regard to Sir Guy Fleetwood Wilson's expression of a gamble in rain, and I should like to ask the question in a slightly modified form, so as to get your views. Do you not think that the very uncertainty of rain, which is inevitable however great India's development may be, makes it imperative to keep large liquid reserves so as to maintain exchange, instead of dissipating those reserves in the manner you suggest?—I do not dissipate them, I show you they are kept intact.

2469 They are first spent, of course?—They are spent, it is true, but the chest is always kept full.

2470 Do you consider that your method is consistent with an absolutely stable and good currency?—You keep the currency reserves intact, either in gold or in silver, and therefore you do not interfere with their stability in any way.

2471 In the crisis of 1907-8 the Government paid out 17 millions and practically exhausted their stock of gold, I think?—Yes.

2472 Do you think it is wise and prudent to invest those resources? You have been suggesting investing those resources in railways, I gather?—Exactly. You can do that, and yet you can keep your box intact. That is what I am afraid the Commission have not quite grasped yet.

2473 I gather, then, to put your whole policy as you have developed it to day in a very general manner, that your idea is to run the whole country from a commercial point of view, using the profits in development and spending them on capital account, so to speak?—Exactly, and unless you do that India is losing her produce. Since 1835 India has parted with 300 millions sterling of produce for nothing. There are 300 million sovereigns or gold cheques lying in India to day which have never been cashed.

2474 Those are profits, of course connected with taxation?—No, those sovereigns are the profits on the balance of trade, those are the net imports of gold into India.

2475 You do not suggest that your policy involves a fixed taxation, which might or might not be excessive, do you?—It will relieve taxation because it



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[Continued

develops the country. It increases the produce of the country, and therefore it relieves taxation.

2476 With regard to your remarks on Gresham's law, I would like to clear this up. You say in paragraph 22 of Appendix XVI (page 523) that gold will be driven out of sight, but how do you reconcile that with the fact that some gold is still in circulation, that the amount is increasing yearly, and also that the Government have large gold balances which the people can have if they want?—What has gone past the Government Treasury is out of sight.

2477 What has gone into the country, do you mean?—What has gone into the country is out of sight, but the Government can bring those sovereigns in sight by playing on this exchange. If the Government sells its Council bills at 1s. 4d. it will secure every sovereign.

2478 Do you think that Gresham's law is in active operation now in India internally?—It seems to be.

2479 Surely every sovereign would have disappeared long ago if it was in full operation?—Every sovereign has practically disappeared, I mean to say, it is lost to India. There are 300 million sovereigns practically out of sight now.

2480 You have handed us in a very interesting memorandum from Mr. Fremantle on agricultural banks (supplementary note B to Appendix XVI, pp. 530-6). He takes a very sanguine view that there is plenty of capital for developing agriculture in India, you do not agree with that, I gather?—What I say is that you want to organise that capital. That is why I want banking organisation for the agricultural population in order to organise that capital.

2481 What he said was that it was available from the agriculturists, and I gather that he did not look to the banks in any way for help, if I read his memorandum correctly?—A lot of those little capitalists are agriculturists, as a matter of fact. On my own property in Sunderbund there is a moneylender who was an agriculturist. He was the man who ran the place.

2482 I suppose you would call him a banker for the purpose of this inquiry?—He is a banker.

2483 You suggest that a central bank or a State bank should devote some part of its funds towards financing agriculture?—Yes, just to give the thing a start. If it is started, then funds, I understand, will not be required from the Government. When Lord Curzon passed the Co-operative Credit Societies Act in India Sir Denzil Ibbetson, who was the man in charge, said that for every rupee put in by the people the Government would put in one rupee. The Government has never been called upon for that rupee. It merely wants a bit of a start from the Government, but once the thing is started and the people see how the thing is working they will put the money in and the Government will not require to put in a halfpenny. A little assistance is wanted at the start.

2484 I am inclined to agree there, and that perhaps it would be more the province of Government to help agriculture than a State bank?—All I want Government to do is to provide more of those organisers of co-operative credit. There is only one man in Bengal, Mr. Gourlay, to preach this co-operative gospel to about 50 or 60 millions of people.

2485 I am afraid this is rather outside our terms of reference. I was only going to make one suggestion with regard to getting money and facilities for agricultural purposes. Have you considered the question of the savings banks, which have agents in every little village, because every post office has a savings bank? Could not the savings bank deposits be utilised in that way?—I think, as a matter of fact, under the Act the societies have the power to put their money in there.

2486 (Mr. Keynes) I understand you are of opinion that the Government ought to discourage the circulation of gold by all reasonable means?—Yes.

2487 And you base that view mainly on the circumstance that the use of a cheaper medium of exchange sets free resources for other purposes?—Yes.

2488 Could you say at all how widely those views are shared by other business men in Calcutta?—I do

not think business men have realised what it means. Business men have not realised that all those 300 million sovereigns lying in India are uncashed cheques.

2489 You think this view of yours is not widely shared by other business men, then?—It will be when they realise what it means, but they have not realised it yet.

2490 At present it is not widely shared?—Because they do not understand it. If those 300 million sovereigns which are lying in India to-day were bodily lifted by the Government and brought to Europe, they would buy 300 millions' worth of European goods to which India is entitled. That sum has never been cashed yet, therefore India has lost 300 millions sterling worth of produce since 1835, and has got nothing in exchange.

2491 (Chairman) Does the same apply to the gold in my purse?—No.

2492 Why not?—Because this is the balance of trade due to India which has been received in gold. Europe has paid for it by a gold cheque.

2493 (Mr. Keynes) In paragraph 6 of Appendix XVI (page 518) you suggest that the Treasury balances should be lent to first class banks, from an answer which you have given to-day I understand you to include in the term "first-class" Presidency banks and exchange banks?—Yes.

2494 Any others?—I should not like to recommend any others. There are one or two banks such as the Allahabad Bank.

2495 (Sir Ernest Cable) And the Alliance banks?—Yes, they are local banks, and they are perfectly sound.

2496 (Mr. Keynes) Would you include them under the term "first class"?—Certainly.

2497 If it was thought right to ask security from these banks, could they give good security in large quantity, do you think?—If they could not give it, do not give them the money.

2498 I am not asking you that question. If it was thought right to ask for security, could they give it?—I daresay they could raise it, as they are very strong financially.

2499 What sort of security do you think the Government could accept?—They could accept securities like Calcutta Port Bonds, the Bombay Port Trust, or Government paper, or things of that kind.

2500 If the banks were asked for paper of that kind, what sort of amount do you think the Government could lend against the security? Could the banks of India provide five millions worth of that kind of security?—They can provide 20 millions, and still have 40 millions in their pocket.

2501 My question is: If the Government were to offer to lend five millions of Treasury balances against such sort of security as you have named, namely, Port Trust loans, and so on, would the banks provide security up to that amount of five millions?—I do not know, but whatever they want to borrow, if they are not able to give security for it, then do not let them have it.

2502 You do not think that they could give very much security?—I do not say that. I do not know what their resources are, and therefore I should not like to say that.

2503 You have no clear opinion on the point, and feel doubtful?—I have not their accounts before me, and I cannot say until I see their accounts.

2504 (Sir Shapurji Broacha) What do you mean by saying that there are 60 millions in hand at the present moment? There are 27 millions in the currency, 18½ millions in the Gold Standard Reserve, and two millions in paper, that makes 47½ millions, how do you get the difference between 47½ millions and 60 millions?—The whole reserve, I suppose, is turned into gold now.

2505 It only makes 47½ millions at present?—Of gold, or gold securities?

2506 Taking gold and gold securities?—In addition to that, you have got your silver.

2507 You say that you can convert the 27 millions of gold in currency into 40 crores of rupees, and have a

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[Continued

balance of 12 millions which could be employed in the Public Works Department?—As far as may be necessary, but the Department would not want it all, as a matter of fact, they would only want a share of it.

2508 You would destroy the whole fabric of the gold standard, because there are only 18½ millions of securities?—As I have been trying to explain as you pay it out it comes in again.

2509 If you borrow in a year of famine, you do not get anything at all. In a partial famine in one year the Government had to give out 15½ millions of gold, supposing it had been not a partial famine but an extraordinary famine, there would have been nothing left?—But you can go on borrowing in the good years, and you need not wait till the famine years come round. You should begin making those irrigation canals in the good years.

2510 A 15 millions loan, even in the London market, would be a very big thing?—We do not want 15 millions. I understand that two millions or three millions, would be enough for the railways.

2511 I am not talking of the railways. I am talking of people wanting to remit money from the other side here, that would have to be done from the Gold Standard Reserve, and that would not be sufficient to cash all the demands, if you carried out your scheme?—I have been trying to explain how it can be made sufficient. You can go on borrowing every day if you like, in the market. Do not wait till the bad year comes round, because if you do that you may be landed.

2512 Do you mean go on borrowing and keep it in the reserve at interest?—Borrow as you did for your canals in India, and go on borrowing. If you have a surplus in hand, of course you will not want to borrow, but there should be a continuous chain going round.

2513 Whatever they have borrowed they have already spent, and there is nothing left of that, say that they have borrowed and spent about 10 millions or more, do you mean that they should borrow another 12 millions in the same year, if it is a good year, and put it aside?—Whatever you put out at one end of the box comes in at the other, day by day. This year, for instance, the Government has a surplus of seven millions sterling, and they do not require to borrow a halfpenny. You get that seven millions in your surplus, and you put it into your canal.

2514 Say that the Government loses six millions or seven millions in revenue, and they have to pay in assisting the ryot besides, and say that India exports 30 millions or 40 millions less of produce than in good years, then there are tremendous losses in other ways for which the Government have to provide by borrowing. In a famine year, when we require the assistance of the Gold Standard Reserve, India loses in the shape of lessened export trade about 30 millions or 40 millions because she has not produced enough to export, and the Government have to assist the ryots to get their food, then the railways earn very little, and the Government in that year, besides having to provide for the par of exchange, are therefore at a heavy loss. That cripples them for borrowing for other purposes than to meet the immediate necessity, so you cannot bring your theory into play in that year?—I do not quite understand why. I would like to finish this particular question you have raised, as I am afraid I have rather failed to make myself clear. Supposing this is the Treasury, and money is being paid out in making an irrigation canal—

2515 You must remember that the 27 millions is already exhausted and there is nothing left?—But it is in the box just now. You pay out this money, and you dig a canal as you pay it out. It is a good year just now, and, therefore, money comes in at the other end as it goes out at this end.

2516 I do not understand it. You say these are very good years, and you have used up the 27 millions of gold by turning it into rupees and spending the balance on public works. But when we have done that, and when we have enriched ourselves with great public works, famine comes in and the reserves are already without that 27 millions sterling?—No, because

me, we start now to day, when we have 27 millions in our pocket.

2517 (Chairman) I think the point Sir Shapurji is trying to put is that when a bad year comes, instead of having 27 millions in your pocket you will have the 27 millions in the canal, the canal may be a most valuable work, but it does not give you money for the immediate emergency?—Yes, it does, and I just want to explain why. The box is full just now, you start digging this canal, it is a good year and you have plenty of money in your pocket, that sovereign goes into the canal, but you have a good year and then this sovereign comes into the box.

2518 (Mr. Keynes) Where from?—From the surplus—the seven millions of taxation.

2519 That mounts up to the 27 millions, does it?—This year the Government has a surplus of seven millions, so you have got that seven millions to start with. You pay out one sovereign from this seven millions, and you put one sovereign in in respect of it. Now, is the reserve intact or not?

2520 (Chairman) As long as you only draw out the same as you are putting in it remains intact?—Now we are coming to it. That sovereign has gone, but another one is in the box. The next year is a bad year, and you go to the money market and draw from that. You give the money market your paper, or whatever it is and then another sovereign goes in, so you have had two sovereigns taken out and two sovereigns put in.

2521 (Lord Faber) Say that you have two bad years, the money market then will button up its pocket and will not lend you anything?—Every country in the world is borrowing on the London market, so why cannot India?

2522 (Chairman) The assumption on which your argument rests is that, no matter how prolonged the bad times, India can always borrow as much money as she wants?—Exactly, and she had done it up to the present day. If she had not been able to do it up to to day she would have been bankrupt.

2523 Does not that carry you to this, that there is no necessity for a reserve at all? Why pass the sovereign into the reserve? Why make a pretence of keeping it in a box when, in fact, in the bad time you are going to rely upon borrowing to meet your needs? Why should you pass it through the reserve at all? Why should it not remain in the Treasury and go direct from the Treasury to the canal?—In that case, Government is not building the canal, and that is what I want to point out.

2524 Is there in your view, any necessity for a reserve at all except that reserve provided by the Government's power to borrow?—Power to borrow, combined with the surpluses, that is all the Government wants.

2525 (Sir Ernest Cable) Using the surplus in a good year and borrowing in a bad year?—Yes. Does the Commission understand that the reserves remain intact? Might I finish my illustration?

(Chairman) I think I understand your illustration, because you have given it us once or twice. If I rightly understand your illustration, the reserve becomes valueless.

2526-7 (Sir Ernest Cable) And there is no need for the reserve?—There is no need to increase it more than is necessary. You should keep sufficient in hand always to ensure cashing your currency notes, but beyond that you can go on indefinitely building railways.

2528 (Chairman) That only means that you are to have credit at your bankers equal to the amount of the cheques you draw?—Yes and your credit is improving all the time because you are increasing your irrigation canals. In that way you improve your credit and you can borrow cheaper in the London market than any nation in the world.

2529 (Sir Shapurji Broacha) Do you mean that the Secretary of State must sell under the gold par?—He must buy all the sovereigns at 15 rupees to the £.

2530 Supposing the Secretary of State has 20 millions of surplus as it is called, though it is really a part of the Indian revenue and is not a surplus and he

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[Continued

has to send that money back to India for the Government to expend?—It is coming back again, as I am trying to explain. The chest always remains the same as it is now.

2531 I am not talking of the chest now. Whatever the Secretary of State holds he holds from the revenue of India, he might be able to keep 10 millions here for one year, but what about the second year? Should he accumulate all the revenues of India here, or should he send it back in some shape to spend it there?—He can both save it and spend it.

2532 There are those who like to have gold and who do not calculate the exchange rate when they are importing gold into India, last year they imported 12 millions of bar gold when it was not a question of the exchange rate. There are those who would give almost anything over or under par to get gold there?—If the Government offer 1s 4d, they will keep every sovereign here, if they wish it.

2533 They take gold there in bars, and the 12 millions I have mentioned were taken there quite independent of the Government, and quite independent of the exchange rate, how can you prevent that?—You cannot prevent it, but in that case you pay 22 rupees for your sovereign instead of 15.

2534 No, I pay 15 in India. How can you prevent me taking gold out, independent of the exchange rate?—What happens is that India has lost her produce and she cannot get any gold. The gold, to begin with, is in the hands of the exchange banks, the balance of trade is not in the hands of private individuals because the exchange banks collect that gold here.

2535 The export will be financed in the way the people want, they send exports here, and they ask for gold, and they will get it without the aid or interference of the Secretary of State?—The whole balance of the export trade is financed by the exchange banks.

2536 That is quite true, and the exchange banks help them to bring in gold bars?—We can stop it by asking less than 1s 4d.

2537 In India the export trade is financed in two other ways, first, by sending out gold as merchandise, and secondly, by sending out silver as merchandise, and dispensing the rupees there to pay for the export from that side?—When a man exports goods from India, what does he do? How does he get his money back?—From the exchange banks, is it not?

2538 Perhaps, but the exchange banks do not take all his sovereigns?—I want to show how the circle goes round. The total export trade of India, I understand, is financed by the exchange banks. Goods are sent out of this country, the banks pay the exporters here, they get a draft, say, from the Secretary of State, and they recover the money there. That money has got to come back to England, and it comes back in this way. They pay the exporter there the sovereign they collect on the other side, and that sovereign comes back to England. In that way the exchange banks collect the whole gold balance of trade, but if the whole gold balance of trade is financed by the exchange banks, they want to get this gold balance back to India so as to send home more produce. They have two ways of getting it back. They can buy Council bills of the Secretary of State, and if he asks too much for them—if he asks 1s 4½d or 1s 4¾d—the banks will say, no, it will not pay us, we shall ship the gold out by steamer. If he asks 1s 4¼d for his drafts the banks will say, no, if I send my gold out to India I can get all the rupees I want at the rate of 15 to the sovereign, therefore why should I pay you 1s 4¼d? If the Secretary of State refuses to give his rupees for 1s 4d, that gold passes the Government and finds its way out to India, as Sir Shapurji suggests, and then that amount of produce is lost to India. But it does not pay the exchange banks to ship gold out to India if they can get a rupee for 1s 4d, because by buying from the Government Council bills and telegraphic transfers they can get the money at once on the other side, whereas if they buy gold here and ship it out they lose three weeks interest. In that way the Government can force the exchange banks to part with that gold by working the exchange, and when

they get the whole of the export trade into their hands in that way they simply prevent India losing her balance of trade, as she otherwise does.

2539 Are rupees hoarded now?—I cannot say.

2540 You are certain that gold is hoarded?—I am undoubtedly certain of it.

2541 Do you know that since 1900 about 150 crores of rupees have been coined?—Yes.

2542 That there are only about 17 crores visible and the other has gone into circulation, it must have done, because it could not have been hoarded?—There must have been a certain amount of sovereigns hoarded since 1835, because 300 million sovereigns have gone into India and have never come out of India. I am in India every year, and I never see a sovereign. Where are those 300 million sovereigns?

2543 If they use in circulation about 135 crores of silver coin then they are not much good for hoarding, the people would rather hoard the gold itself, would they not?—Exactly.

2544 Taking the figures given in one year for the railways, for savings banks, and the Post Office, I find there was a circulation of about three crores of sovereigns, that shows that there is a circulation of gold?—Has that gold come back to the treasuries again?

2545 You say that that circulation ought not to be very much encouraged?—I say for every sovereign in circulation India has sent away a sovereign's worth of produce and has got nothing back. That is what it means, and there is no getting away from it. If those 300 millions of sovereigns were brought to Europe to day they would purchase 300 million sovereigns worth of goods, that has not been done, and therefore, India has lost those goods. There is no getting away from that.

2546 (Sir James Begbie) You think Council bills and transfers should be sold freely for the convenience of trade?—Yes.

2547 You may remember that Council bills were started for the purpose of remitting home the home charges?—Yes.

2548 Do you approve of the sales of Council bills in excess of the amount required to pay the home charges in order to meet the convenience of trade?—Yes, I want to send every sovereign both for the home charges and above the home charges, because I believe that for every sovereign not so secured, India loses a sovereign's worth of produce.

2549 Do you understand that the money from which the home charges are paid is money raised by taxation in India?—By revenue and taxation.

2550 Are you in favour of Council bills being sold against the Treasuries in India in excess of the amount that is wanted to meet the home charges?—Yes, I would sell everything the banks like to take.

2551 Even if the taxpayer has to find the money?—I do not quite follow.

2552 How far would you go with your drawings against revenue?—To the extent of the entire balance of trade. If the Government does not secure that sovereign, the taxpayer loses it. That is what I maintain.

2553 One other question about a matter which has been mentioned already, namely, the hoarding of gold. You have alluded to an immense quantity of gold that is hoarded, is it not the case that banking deposits have greatly increased, also investments in securities of the Government and of municipal authorities and private concerns?—Yes.

2554 So there are cases where hoarding is not taking place?—Undoubtedly.

2555 (Chairman.) There is one recommendation or suggestion in your memorandum which I think none of us has asked you about, and perhaps I ought to ask a question on it. It is in paragraph 5 of supplementary note A to Appendix XVI. (page 529) You suggest there that the Government and the Secretary of State should find the average silver purchases for a period of years, good and bad, and every year coin the average or a little more. That you recommend in order to "kill" the gamble connected with the existing spasmodic

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[Continued

"method of purchase and protect Government from being cornered"?—Yes

2556 Has your attention been drawn to the very large variations between one year and another in the demand for rupees?—Yes I understand that for the last four or five years the Government have not had to coin any silver until lately

2557 We have it in evidence—I have not got the question before me, but I think my memory is right—that in one year the people of India took out eight millions sterling in additional rupees, and the next year they returned 12 millions into the Treasury owing to the bad trade, or, as the witness put it to us there was a difference between plus 8 and minus 12, how would you strike an average with such big fluctuations as that?—We know that the silver purchases for 10 years have been 60 millions, taking good and bad years that 60 millions has been sufficient to meet the demand against currency notes presented to the Government

2558 But the demand has not been at all regular during those 60 years?—No, it has not

2559 Now that we know what the total demand was, if we divide it by the number of years, and the Government purchase that amount each year, might they not be left short in one of the busy years?—They will have less to purchase in that case than they have

The witness withdrew

now Suppose they buy, say, six millions every year annually for, say, eight years that is 48 millions they have in hand, so that if a tremendous demand springs up, they have less to buy in the silver market than they otherwise would have

2560 If in the early years it has averaged more, then they have so much money lying idle?—That is so, but in that case they lend it as required, and utilise it in that way for financing trade

2561 That is to say, they coin the rupees at once, whether wanted or not?—As required

I should like to make clearer to the Commission how I prove that the one sovereign produces 16 in 14 years I have here a lecture delivered before the Society of Arts by Sir John Benton, K C I E, on Irrigation Works in India He gave figures showing the capital outlay, and he says if we spend 20l on canals, he would lend 24l every year on food crops If Government secure this sovereign, this gold balance of trade, that means that by creating a canal, in 14 years it gets back 14 millions sterling worth of produce, because for every sovereign it gets back 14 golden sovereigns plus the two sovereigns representing the capital cost and interest, so that for that one sovereign spent you get back 16 sovereigns in 14 years, and therefore, for every sovereign which escapes the Government, that is lost

At the India Office, Whitehall, S.W.

### EIGHTH DAY.

Thursday, June 26, 1913.

#### PRESENT

The RIGHT HON AUSTEN CHAMBERLAIN, M P (Chairman)

Lord FABER  
Lord KILBRACKEN, G O B  
Sir ROBERT CHALMERS, K C B  
Sir ERNEST CABLE  
Sir SHAPURJI BURJORJI BROACHA

Sir JAMES BEGGIE  
Mr ROBERT WOODBURN GILLAN, CSI  
Mr HENRY NEVILLE GLADSTONE  
Mr JOHN MAYNARD KEYNES  
Mr BASIL P BLACKETT (Secretary)

Mr J A TOOMEY and Mr T FRASER called and examined

2562 (Chairman) I think, Mr Toomey, you come here to day with Mr Fraser as representing the exchange banks doing business in India?—(Mr Toomey) That is so

2563 Will you tell me the names of the banks which you represent?—The Chartered Bank of India, the Hong Kong and Shanghai Bank, the Mercantile Bank of India, the Eastern Bank, and the National Bank of India (Mr Fraser) The foreign banks also, the Deutsche-Asiatische, the Russo Asiatic, the Yokohama Specie Bank, the Comptoir National, in fact the only bank that did not intimate that they wished us to represent them is the Delhi and London Bank

2564 Do you represent the International Banking Corporation?—Yes

2565 I understand from the memorandum (see Appendix XVII, page 536) you have been good enough to send us that you have no criticisms to offer as to the location and management of the balances of the Government of India?—(Mr Toomey) No

2566 And none as to the sale of Council bills and transfers?—What we say on that point is that we would deprecate any change being made in the sale of Council bills The present system is admirably adapted to the requirements of trade, the amount put up weekly for tender being well regulated by probable requirements, while additional amounts can be obtained at a

small premium We consider that the sale of Council bills is well handled, the system adopted being the outcome of many years' experience

2567 In your memorandum you advocate the lending out of the surplus balances of India during the busy season, I see?—Yes, we do

2568 And, to that extent, you criticise the present use of the balances?—There is an agitation that the Government of India should lend these surplus balances, and we see no reason why the balances should not be so lent, say, to the Presidency banks, at a somewhat lower rate than the bank rate for the time being At the same time we do not think there would be a very large amount of money required in that way

2569 You do not suggest, I presume, that the balances of the Government of India should be increased for that purpose?—No, certainly not

2570 Only that when there is a surplus balance it should be used in that way?—Yes, if there are surplus balances

2571 Do you think that the balances kept at the Treasuries in India have been higher than they need to be?—No, I think not

2572 Up to the present, then, these surpluses of which you speak could hardly have existed? Perhaps I did not make myself quite clear, I meant, were the balances higher than it was necessary for the Govern-

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[Continued]

ment to keep in the treasuries to meet the calls which might come upon them, and would there have been in recent times any capital which they could safely loan out?—Yes, I think they could have lent out money in India to the market.

2573 On short loans?—That is so, for two or three months, against Government paper, port trust bonds, and securities of that type. As I say, I do not think that these loans will be required to any large extent.

2574 Would you suggest Government lending for as long as three months?—Three months would carry them over the busy season.

2575 You are aware, of course, that that is longer than it has been their practice to lend on the London money market?—Yes, they lend here for four or five weeks.

2576 That is in order that they may be certain of getting it at any moment of pressure here?—I think in the case of India the money might be lent for two or three months.

2577 Suppose that that practice were adopted, and suppose that they had lent out considerable sums in India, do you think any difficulty would be caused when, on any occasion, they were unable to lend?—No, because the market has been getting on well enough without these Government loans.

2578 You do not think there is any danger of the market coming to rely upon this power to get loans from Government, and then being caught short sometimes when the Government cannot lend?—I think not, if the Government were to announce their inability to make these advances some little time before.

2579 I think you said just now that these loans should be made slightly below the bank rate?—Yes, somewhat below.

2580 Would you attach any conditions to them if so made, that is to say, any conditions as to the rates at which the money should be lent again by the banks?—No. I take it money would be lent to the Presidency banks at something like 1 per cent under the bank rate, and that would leave the Presidency banks free to lend money at the bank rate to their customers.

2581 Would not the customers who thus indirectly get the Government money be financed on more favourable terms than those who had to rely upon the ordinary resources of the bank?—I think not, because as a general rule people can now borrow on those securities at the bank rate.

2582 From what you have said as regards the sale of Council bills and transfers, I gather that you do not think the Secretary of State is injudiciously keeping gold out of India?—No, I think quite enough gold goes to India.

2583 Do you think that he sends any more than ought to go?—No, I think not. It is only the surplus after the sale of Council bills that goes to India in the way of gold.

2584 Now going to the Gold Standard Reserve, have you any criticisms to make upon that?—Yes. We consider that the whole amount should be kept in this country in gold and gold securities, and that the latter, as far as may be practicable, should consist of short term maturities. We further consider that a much larger proportion of the reserve should be retained in actual gold than has been the custom in the past. All profits on the coinage of rupees should be credited to the reserve, as we are strongly of opinion that the time has not yet arrived when it is safe to place a limit on the amount of the reserve. We do not approve of any portion of the reserve being held in silver.

2585 Do you suggest any figure for the amount of gold that should actually be held?—No, but we think that it ought to be a good deal larger than at present.

2586 I understand you to say you hold nothing here except either actual gold coin and bullion or short-dated securities?—We say that a larger proportion than at present should be held in actual gold, and the rest, as far as possible, in the shape of short-term securities.

2587 It has been suggested to us that the crisis of 1907-8 afforded the best test available, or a very good test, for judging of the amount of gold which is actually needed, do you share that view?—Yes, it did, but, of course it was only a partial famine or breakdown. It was a small breakdown.

2588 There was a very severe financial crisis in America and elsewhere?—Yes.

2589 But there was only a small famine in India?—Yes.

2590 You would think, therefore, that it was not safe to take that as a measure of the liabilities that might come upon you?—No, nothing like it. With a severe famine a much larger amount of gold would be taken out.

2591 I think it has been stated that the object was to get five millions of the reserve in gold, you would think that quite an insufficient sum, I gather?—Yes.

2592 But you would not like to name any figure?—I do not think we need place a limit just now.

2593 Would you wish, whatever your figure was, that it should bear some sort of proportion to the trade of India, and rise as the total trade of India rises?—I say it ought to be proportioned to the total amount of the reserve, that is, that it should bear a proportion to the amount of the reserve.

2594 Should both the reserve as a whole and the gold portion of it bear some proportion to the trade of India? Suppose we were able to fix on a figure which we thought safe under the present circumstances, would you say that as the trade of India expands it would be necessary that that figure should rise in proportion?—Yes, it should be enlarged.

2595 You object to holding any portion of the gold reserve in silver?—Yes.

2596 And I think you said you object to the holding of any portion of the gold reserve in India?—Yes, it should be held in London.

2597 It is in the Indian branch that the silver is held at the present time?—Yes.

2598 Will you tell me why you object to holding any portion of it in India, and why you object to having any portion of it in silver?—We think it best to hold the reserve in London, because this would be the market where the money would be actually required in an emergency.

2599 Your objection to holding any part of it in silver is due to what cause?—It is a Gold Standard Reserve, and we say it ought to be in gold. (*Mr Fraser*) We consider that silver could not under any possible circumstances support a gold standard in a crisis.

2600 Have you any criticisms to offer as regards the Paper Currency Reserve?—(*Mr Toomey*) We hold that a proportion should be kept in this country in gold, and so could be made immediately available for purchases of silver, or released in case of need against the deposit of rupees in India. When gold is available in India, the currency note department should, in normal times, be prepared to pay out readily sovereigns against notes or rupees.

2601 That has been the case, has it not?—Yes.

2602 Have you anything to say as to the proposal which has been made for the opening of a gold mint in India?—We say that in our opinion existing conditions in India do not call for the establishment of a mint for the free coinage of gold, seeing that the country obtains all the sovereigns it requires free of minting charges. If, however, it should at any future date be deemed advisable to open such a mint, we advocate the coinage thereof of the sovereign. Our branch managers have written something on this point, and I do not know whether I should tell you what they say.

2603 We should be very glad to hear it?—The Calcutta manager of the National Bank of India says that a gold coinage is not really wanted in India, but "if gold is to be coined here then it must be the sovereign, with which people are already more or less familiar, any other coin would, I think, merely be looked upon as a curiosity. Government's well-backed note issue is, I think, the thing to cultivate as much as possible, being the most economical

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[Continued

"form of currency" The Bombay manager says, "Personally, I do not think that a gold coinage will benefit India, and the clamour for it is confined to Bombay and Karachi. The present currency system is working well, and I do not think that people generally want it changed." The manager at Karachi writes, "We see no necessity for an open mint in Bombay for the coinage of sovereigns. A gold market in India for the coinage of sovereigns would make a firmer discount rate at home, which would not be to India's advantage. Sovereigns had not been tried in India when the Fowler Committee sat and recommended a mint in India for the coinage of gold."

2604 Do you yourself share the view, which I think one of the managers you quoted expressed, that the best currency is a well-backed paper note issue?—Yes, because it is a much more economical form of currency.

2605 Do you yourself think that sovereigns could be freely obtained now in India when wanted?—Yes, they can. That is proved by the large amount held by the Government of India. The people of the country know pretty well that they can get sovereigns if they require them, but they do not require them.

2606 They can get them at a few points only, I suppose?—I think that is so.

2607 Does the fact that these people do not take these sovereigns, although they could get them in the Government Treasuries, suggest to you that the sovereign is an inconvenient coin for them?—No, it is not at all inconvenient. It seems to me that the people have enough sovereigns in the country already for their present requirements.

2608 I put the question to you, because it has been represented to us that India is a country where most of the transactions are very small, and that the sovereign is too big a unit for their gold coin?—I think not. Sovereigns are taken pretty freely in certain up-country districts. The trouble which the National Bank of India sometimes has is not being able to get rupees for sovereigns. If I may follow that out for a moment, at Delhi the manager wrote the other day saying that he could have done some sterling business only his cash balance consisted mostly of sovereigns, and his customers who proposed this sterling business wanted payment in rupees, not sovereigns. Our manager asked the Comptroller-General for silver in exchange for those sovereigns but he was not able to get it.

2609 Why was that?—I suppose the Comptroller-General had not got a sufficient supply of silver.

2610 But no reason was given or at least communicated to you?—That is so. (Mr Fraser) I might remark that we have had a similar experience at Delhi and Amritsar.

2611 Is it a frequent experience at those two places?—Our transactions at those points are not very large, but we have had that experience that we have had sovereigns for which it has been difficult to obtain rupees.

2612 At those two points only?—Those are the only two points up-country in which we are represented (Mr Toomey) It would apply to up-country stations more or less. It does not apply to the Presidency towns.

2613 Some time ago the Indian Government was pressing on the Secretary of State the establishment of a mint, but abandoned the proposal on finding that the Indian mines had made contracts for the sale of their gold to Europe, do you know whether that state of things still prevails?—I have no information on that point. I cannot tell whether with an open mint the local production would go to the Bombay mint or not.

2614 I think in the last financial statement of Sir Guy Fleetwood Wilson, he stated as one of the arguments for the opening of a gold mint that there was a great deal of gold bullion in India which people might at a given time want to coin, and he suggested that it was not economical and it was not right that they should have to send that bullion all the way from India to England to get it coined and then reimport it. What do you say to that?—If you have an open

mint in Bombay I do not see any likelihood of that gold bullion being sent in to the mint.

2615 You do not think it would come out of the hoards?—No. India is steadily taking gold in the form of bars, and that is likely to continue. The people would not part with their gold except under the direst necessity.

2616 Do you think they are now hoarding gold in large amounts?—They always have done so, and the hoarding is probably on the increase, owing to the people being more prosperous.

2617 Would it be the case that the making of the rupee a token as a consequence of closing the mints, causes the people to hoard gold now, where previously they might have hoarded silver?—All I can say is that they are taking gold more freely than they did before, but still the rupee is the coin of the country.

2618 The result in any case is that a great deal of gold has gone into India and remains there either in the form of bullion or of sovereigns?—Practically it always remains there.

2619 Is that gold of much use in maintaining exchange in a crisis, in your opinion?—Not the gold held in hoards.

2620 Does the gold that has gone into circulation come out for the purpose of maintaining exchange, or does it maintain exchange in a crisis?—I think in a crisis the people would retain their gold and probably scramble for more.

2621 I will turn now, if I may, to the question of the enlargement of the powers of the Presidency banks, I think you object to that proposal?—Yes. The question of the enlargement of the powers of the Presidency banks so as to permit them to deal in sterling exchange is one which has been brought forward from time to time during the last 50 years and has been steadily vetoed by the Government of India and successive Secretaries of State. The last time that this question was raised was in 1904 when it was proposed (1) that the Presidency banks should be allowed when the bank rate in India is 6 per cent or higher, to borrow in London for the purpose of remitting funds to India, and (2) that the banks should be permitted to deal in foreign bills so far as is necessary to enable them to remit the money borrowed to or from India. The Government of India with the approval of the Secretary of State, declined to grant the powers sought by the Presidency banks, and the reasons for this decision were fully explained by the then Finance Minister, in his speech reported in the "Gazette of India" of 16th February 1907, of which we have sent you a copy.\* The exchange banks at that time felt it incumbent on them to oppose strongly the proposals of the Presidency banks and we should do so again on the same grounds, namely, that while we do not deprecate ordinary competition by competitors on the same level as ourselves we strongly object to State aided competition. The Presidency banks enjoy the prestige of being the Government bankers with immense sums of public money free of charge, whilst we are handicapped by having to pay interest on the whole of our deposits. The exchange banks have financed the external trade of India for over 50 years without any charge of inefficiency or unreasonable charges, and with the large resources at their command they are fully competent to deal with all the exchange business of the country. We maintain that the legitimate function of the Presidency banks is to finance the internal trade of the country, for which they enjoy special privileges in having large amounts of money without charge. If, however, these banks require further funds for their business it is open to them to raise additional capital in the same way as many of the exchange banks have done. It is contended in some quarters that the Government of India should lend some of its surplus balances for the benefit of trade during the busy seasons and we see no reason why this should not be done in the same way as the Secretary of State lends money in this city on first-class securities. Our view is that the money should be lent to the Presidency banks for

\* See Appendix XVII page 148

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short periods on Government paper, Port Trust bonds, and the like, the money being lent at somewhat less than the ruling bank rate. We attach the same objections as those we have just enumerated to the establishment of a State bank. Banking in India is already well represented in all its branches by the Presidency banks, exchange banks, and the numerous local banks. No State bank would, in our opinion, cater for the requirements of the many millions of cultivators who are at present dependent for finance on moneylenders. Their needs could best be supplied by encouraging and developing the system of co-operative credit which under the sympathetic support of the Government has made great progress during the last few years. The Presidency banks fulfil the functions of a State bank in their respective spheres, they have their capital and resources available for the benefit of their own particular province, and to absorb these into a central institution would, in our view, militate against efficiency. The Presidency banks as they exist are in reality three "State banks," and with their head offices in Calcutta, Bombay, and Madras are better equipped for studying the wants of their respective provinces than one central bank could possibly be, and we are unable to see how such a bank could foster the development of trade as well as it is being done by the existing machinery. Further, a State bank with the control of Government money, the paper currency, and access to the London market would virtually mean the establishment, so far as exchange is concerned, of a banking monopoly, which we feel is neither desirable nor advisable in the best interests of India and its trade. We consider that the existing currency department, with the assistance of hundreds of Government treasuries and sub-treasuries penetrating into remote districts to which it would not pay a bank to go, is much better fitted to manage and develop the paper currency than a State bank would be. The remarkable growth of the currency note issue, particularly in recent years, testifies in some measure to the efficiency of the existing system, and it is scarcely likely that a State bank could foster the extension of the note issue so well as these Government treasuries. I should like to add this note. To my mind the mere amalgamation of the Presidency banks with a central authority would present insuperable difficulties. No doubt the idea in such a scheme would be the retention of the present boards, but these would only have the shadow not the substance of power, and the central authority could not accurately gauge and satisfy the requirements of trade in all quarters nearly so well as under the existing system, and I apprehend that unfavourable comparisons and complaints would follow as to certain interests being favoured at the expense of others. When the idea of a State bank was mooted in 1899 the secretary and treasurer of one of the Presidency banks wrote to Government as follows: "My directors regret that they are unable to concur in the opinion expressed by His Excellency the Viceroy that a consolidation and a concentration of banking facilities are required in the interests of the business accommodation and credit of the country. So far as they are aware, there is no demand in India on the part of the mercantile and trading community for such concentration. If the banking facilities in the country were found to be inadequate, an increase in banking capital would be necessary and would speedily be called for, but a mere amalgamation of the existing banks would not provide an increase of capital or of banking facilities. It would rather tend to curtail credit in many cases." The Bengal Government wrote to the Government of India in March 1900 as follows: "In the first place, it is doubtful whether India is not too large for a single central State bank, the directors, if drawn from or located in the three Presidency towns, would be too far apart from each other. Secondly, the interests of the various Presidencies are not always identical and are sometimes at variance with each other. Thirdly, it is against the public interest to create and foster a huge monopoly. A single bank with large resources and commanding the Govern-

ment deposits would have great power over the other banks. Fourthly, banks deal chiefly in credit, and credit is always a matter of local knowledge and experience." The Government of India wrote to the Secretary of State in June 1901, in reply to certain inquiries: "(Question V) Is it likely that the possible conflict of interests between a bank of this description and other existing institutions might tend to discourage private enterprise, and to prevent the development of the facilities which the public now enjoys?" The answer was: "We think it is evident that if a central bank were obliged to hold more capital than it could profitably employ throughout the year in ordinary business, such a bank would be obliged to enter into prejudicial competition with private banks, and further, the existence of such surplus capital in India might check the outward flow of capital from private sources when occasion presented itself for its profitable employment." If these were the views 12 or 14 years ago, they have stronger force in the present day when the demands of trade and the volume of business are so much larger. When, however, it is suggested to establish a State bank, not only absorbing the three Presidency banks, but also to hand over to it the management of the currency of the country, the scheme becomes one of too vast a character, in my opinion, to be in any way practicable. The management of the currency in such a country as India is very properly in the hands of a large Government department having the control of hundreds of treasuries and sub-treasuries scattered throughout the Empire. It has taken many years to build up this department into its present state, and to expect a newly-made bank to take over the work where the Government leaves off would only invite difficulty and trouble. No State bank, however ably managed and however anxious its officials might be to meet requirements could, in addition to its primary work of attending to the wants of trade throughout the Empire, perform such a work satisfactorily, and there might be a state of chaos, resulting possibly in a run on banks in the not improbable event of a supply of currency running short in various quarters. In this respect I refer not so much to Presidency towns as to places in the interior. When it is also suggested that a State bank should, on the top of all these responsibilities, open an office in London and transact exchange business with India, the proposal is vaster than the ordinary banking mind can conceive as being in any way feasible. The trouble would be to find the genius who could carry the scheme into effect. The Presidency banks have enough to do already in attending to the wants of their respective spheres. The exchange banks have been financing the foreign trade of the country, in some cases for 50 years and more, and no complaints are heard as to any inefficiency or shortcomings on their part. They fill a most important place in the conduct of India's trade, and their record entitles them to every consideration on the part of the Government when dealing with any contemplated changes. The exchange banks do not fear competition by competitors on their own level, but it is easy to see that they could not compete successfully against a State bank with immense sums of public money at its disposal free of charge. Such an institution would have a most unfair advantage over the existing banks. It would create a monopoly in exchange banking, and by its being able to work on terms which the present banks could not touch, have the power to cripple them without having the power to take their place. It would be a distinct disadvantage to merchants in all parts of India that such a monopoly should be created, and that any weakening of the exchange banks should result. (Mr Fraser) Might I remark that that is a personal note by Mr Toomey which I have read and endorse.

2622 With which you agree?—Yes, with which I agree.

2623 Your primary objection to the extension of the powers either of the Presidency banks amalgamated or of a new State bank is that it subsidises competition?—(Mr Toomey) That is so, and we consider it would be unworkable.

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[Continued

2624 You think further that it would be unworkable?—The country is geographically too large

2625 I understand that observation, from the point of view of meeting the wants of clients and of meeting all the local conditions in so vast an area?—You must have an intimate knowledge of your customers and of trade generally.

2626 That applies to banking facilities for internal use?—If a State bank were to open in London it would necessitate intimate knowledge of the London market too

2627 In other respects, would the work which the State bank would have to do be vaster than that which has now to be done by the Government of India and the Secretary of State?—Do you refer to the sale of Council bills and the rest of it?

2628 At the present time the Government of India have to make up their minds what currency the country requires?—All that is a very small matter compared with the work which a State bank would have to do

2629 The management of the currency would not in itself become heavier because it was transferred to a State bank, would it?—No, it would be the same, unless, of course, there was an extension of the currency note issue

2630 I am rather interested to find a gentleman coming from the business world who really feels that Government can do some things better than a great business concern?—We say that the currency department is exceedingly well managed, that it has taken a long time to work it up to its present position, and that no bank could work it as well. It would take a bank many years to get into the present position that the Government are in as regards that

2631 I think, from what Mr Fraser said just now, that every now and then the currency department fails either to provide sufficient currency or to provide it in the place where it is wanted?—(Mr Fraser) Yes (Mr Toomey) To some extent, but we are not making any grievance of that just now

2632 At the present time who really manages Indian exchange?—The exchange banks

2633 Not the Secretary of State?—No, he only supplies our requirements for outward remittances

2634 But he fixes the rate of course?—You can not say that he fixes the rates for Council bills. He accepts the market rate between 1s 3½d and 1s 4½d

2635 Do you say his influence is confined to keeping it within those limits?—Yes

2636 (Mr Keynes) He varies the amount of bills he offers, has that no influence on the rate?—Do you mean the weekly amount?

2637 Yes?—Just now he is offering 20 lakhs a week

2638 (Sir Robert Chalmers) Suppose he offers 100?—Just now there would be no takers

2639 (Chairman) But would that not affect the rates?—Of course he cannot sell below 1s 3½d

2640 (Mr Keynes) At the present moment exchange is very low, but suppose early in the year when it was 1s 4½d he had put up from 100 lakhs to 150 lakhs, would not that have affected the rate at that time?—The rate certainly would have been affected temporarily, unless there was a great extension of exports just at that particular time

2641 So that the rate partly depends upon the policy he is pursuing with regard to the amount he offers week by week?—Yes, but he as a rule offers the amount which the market is likely to take

2642 Subject to what the Secretary of State thinks the suitable rate for the time of the year?—He sells them at the market rate

2643 (Chairman) Does not the demand at any given time depend in part on what the rate is? If the rate is low the demand would be greater than if the rate is high, would it not?—No, that is not so. At this time of the year export business is dull, and consequently exchange falls. For instance, last Wednesday there were only 20 lakhs put up, the market did not want much, the rate was 1s 3½d, and there were very few takers, because India is well supplied with cash at the moment and there is no demand

2644 (Lord Faber) And India is not exporting at the moment?—Exports are not very active just now. We always see the highest rates of exchange in the busy season, naturally, that is, from January to April

2645 (Mr Keynes) If the Secretary of State had issued no bills last week and no bills this week, and said he was not going to sell bills for the next two months below 1s 4d, would that affect exchange?—It might or it might not. It depends on the demand for remittance from India

2646 It might possibly affect exchange though?—Possibly, but India could really get along without Council bills for a month or two, could she not? (Mr Fraser) I think so. I think if the Secretary of State were to fix the rate at 1s 4d just now, and say he would not sell below 1s 4d, the people who wanted to remit money to India would simply wait till the last moment, and if they could not get anything better than 1s 4d they would take his 1s 4d, but they would not go to him except as a last resort. (Mr Toomey) He could not very well establish 1s 4d as the minimum

2647 If he were to announce that policy, would the rate which the exchange banks charge to their customers be altered?—(Mr Fraser) We would sell in India below 1s 4d as long as we could, and when we found we could not sell any more then we would come for his 1s 4d. (Mr Toomey) It does not follow that because the Secretary of State would not sell below 1s 4d exchange would be maintained at 1s 4d for a month or two

2648 (Chairman) I want to draw your attention, with reference to something you have said, to an expression of the views of the Government of India I have before me a letter from the Government of India to the Secretary of State, No 56, dated 22nd February 1900\*. He was then being sent by the Government of India a memorial from the exchange banks on this very question, and in that memorial, as quoted in paragraph 3 of the letter, it is stated by the exchange banks very much what you have said to day, that "for the last 40 years they have 'practically ' financed the whole export and import trade of the ' country,' while the Presidency banks have devoted ' themselves entirely to financing the internal com ' merce." I desire to call your attention to the comments on that of the Government of India. They say, "We cannot for a moment admit the correctness " of this assertion. Though the Presidency banks " have hitherto been prohibited from engaging in " exchange operations their resources (and through " them the resources of the Government also) have " been freely placed at the disposal of all sections of " the commercial community, including the exchange " banks themselves who now imply that they have " financed the whole foreign trade with their own " capital exclusively." Then they proceed to say, " On this point we may let the memorialists speak for " themselves. In December last the associated " exchange banks deputed two representatives (who " are among the signatories of this memorial) to meet " our honourable colleagues in charge of the Finance " Department and to urge upon the Government that " any loans made by the Government should be made " equally to the exchange and to the Presidency banks " When it was intimated that the Government would " be unlikely to depart from their past practice of " giving all loans through the Presidency banks, the " deputation asked that the Presidency banks should " not be permitted to pass on the Government money " except to the exchange banks, or at any rate that " the exchange banks should have the first call on it " to the exclusion of local banks and merchants, " European and native. A few weeks later the " Government were suddenly and urgently pressed " by the managers of two of the exchange banks to " advance Rs 30 lakhs to the Bank of Bombay"—this " was written in 1900. " It was represented that unless " the money was forthcoming, there was danger of a " serious commercial crisis, and of an important " failure. The exchange banks, it was explained,

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would not provide money for their customers, though money could be obtained in a few hours under Act II of 1898, because they objected to buying telegraphic transfers at the rate at which your Lordship was then selling. Sooner than have recourse to this means of obtaining funds they frankly preferred to let the crisis come. Happily the crisis was averted, mainly, we believe, by the action of one of the "Presidency banks." You observe that in that paragraph the Government of India challenges *ab initio* your claim that the exchange banks have successfully and completely financed the external trade of India?—No other body of people have financed the foreign trade of India. Might I look at the first point?

2649 Certainly (*handing letter to Mr. Toomey*)?—(*After reading*) Neither my friend nor I knew anything at all about this. The paragraph says, "the associated exchange banks deputed two representatives (who are among the signatories of this memorial) to meet our honourable colleague in charge of the Finance Department, and to urge upon the Government that any loans made by the Government should be made equally to the exchange and to the Presidency banks." We knew nothing about that in London and we should not uphold it.

2650 Sir Shapurji suggests to me that the London offices did repudiate that?—I knew nothing about it (*Mr. Fraser*) I was on leave at the time, and I knew nothing about it.

2651 (*Mr. Gladstone*) You were in India in 1900, were you not?—Not at that time, I did not go out till May 1900. (*Mr. Toomey*) I was not in India then. We certainly knew nothing about it, and we certainly would not endorse it.

2652 (*Chairman*) Now look at the last sentence of the paragraph, "The exchange banks, it was explained, would not provide money for their customers, though money could be obtained in a few hours under Act II of 1898, because they objected to buying telegraphic transfers at the rate at which your Lordship was then selling"?—Before that it says, "When it was intimated that the Government would be unlikely to depart from their past practice of giving loans through the Presidency banks, the deputation asked that the Presidency banks should not be permitted to pass on the Government money except to the exchange banks, or at any rate that the exchange banks should have the first call on it." We know nothing about that, and we do not endorse it.

2653 Will you just look again at the last sentence?—I cannot imagine what the deputation consisted of. Certainly, the whole thing would have been repudiated by the London offices of the banks. do you not think so? (*Mr. Fraser*) Yes.

2654 I pass away from that. Are the exchange banks widely represented throughout India?—(*Mr. Toomey*) They are fairly well represented. We have a good many branches up country.

2655 In those branches you are competing with the Presidency banks, are you not?—We have some branches where the Presidency banks are not represented.

2656. But in many cases you would be in competition with the Presidency banks?—To some extent. (*Mr. Fraser*) As far as the Chartered Bank is concerned, we are only represented in two up country branches. Our main object in going to Delhi and Amritsar, the only two points at which we are represented, was to foster our Manchester connection, which is part of our exchange business, and our sales of bar gold, which also we consider part of our exchange business. Both Delhi and Amritsar are good markets for gold. (*Mr. Toomey*) That is practically what we are there for too—financing Manchester business chiefly.

2657 Then you do not consider that you seriously compete with the Presidency banks for the internal business?—No. (*Mr. Fraser*) As far as the Chartered Bank is concerned, we do not compete.

2658. I was asking you to speak generally if you could?—(*Mr. Toomey*) Neither of us compete.

2659 (*Sir James Begg*) When you say the present system of selling Council drafts is admirably adapted

to the requirements of trade, you refer, I presume, to foreign trade?—Yes, to Indian foreign trade.

2660 Would you agree that the export trade forms part of the internal trade before the merchandise which is exported passes into the hands of the exporters?—It is internal trade until it becomes export trade.

2661 And the other way about in the case of imports—the merchandise imported becomes part of the internal trade after it is taken over from the importers?—It becomes internal trade then.

2662 So that the internal trade includes the foreign trade?—They are interwoven.

2663 Is it not included?—They are interwoven with one another.

2664 You expressed satisfaction generally with the system of Council bills sales, I think?—Quite so.

2665 But that was from the point of view of buyers of bills?—We always have to pay full rates for them.

2666 When you expressed this satisfaction it was not from the Government point of view, but it was from the point of view of trade and your own trade?—We do not see any system that could be worked better. We say that the system is admirably adapted to the requirements of trade, that the sales of bills are well handled and in fact that they could not be better sold. We always have to pay the full price for Council bills. They are put up for competition every week and naturally they fetch the highest prices.

2667 It does not matter to the buyers of bills whether the sales of bills are made against the Treasury balances in India, or against the Gold Standard Reserve, or against silver purchases, does it?—It does not matter really to us what accounts are debited with the amounts of these Council bills.

2668 You hold, I understand, that a proportion of the gold belonging to the Paper Currency Reserve should be kept in England?—Yes.

2669 Have you formed any opinion as to the extent of the proportion that should be held here?—No, we would not like to place any limit on it.

2670 Do you consider that there is any danger of the withdrawal of a portion of the reserves to England affecting the credit of the note issue in India?—Do you mean a further withdrawal from India?

2671 No, any withdrawal of the gold reserves from the paper currency department?—No, we think that a certain amount should be held here, and then, in the event of an adverse season, the money here would be available to meet the drafts issued by the Government of India.

2672 The reserve is intended for the redemption of the note issue, is it not?—In an adverse season the notes would be paid in to the Government of India, and they would pay out gold here against the notes tendered in India.

2673. What I wanted to know was whether you think there is any danger of the credit of the note issue being affected by the fact that a part of the reserves was held here?—I do not think so. (*Mr. Fraser*) It might be so if the amount held here was excessive. Care would have to be taken to see that the amount of gold held here was never unduly out of proportion to the total note circulation.

2674. But you would not say what proportion?—I would hardly care to say at present. I should think that the amount held at present is not too much—it is something like nine crores, I think.

2675 Then you say that when gold is available in India the currency note department should in normal times be prepared to pay out sovereigns readily against notes?—(*Mr. Toomey*) Yes, but there should not be any obligation.

2676 I am not quite sure what you wish us to understand by the expression "in normal times"?—I think if the Government can afford to give us sovereigns against notes they should do so, but should not accept any obligation to give sovereigns in exchange for silver or notes. In adverse times, of course, the gold would be required for the support of exchange, and the Government might then see the necessity of withdrawing the issue of gold to the people in the country.

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[Continued

2677 Take the present time for example, would you say that gold should be issued at the present time with exchange below par?—Yes, I see no reason why gold should not be given in exchange for notes or rupees. The Government are well able to do so, having a very large amount of gold at their disposal.

2678 With regard to the remarks you made about the Presidency banks, you told us that the Government of India with the approval of the Secretary of State declined to grant the power sought by the Presidency banks. I do not know whether that puts the correct interpretation on the fact. Is it not the case that the Government of India proposed that the power sought by the Presidency banks should be given and the Secretary of State vetoed it?—I accept that.

2679 With regard to what you say about a State bank, it is a little difficult to discuss the matter, because we have got before us no definite proposals for a State bank if there is to be one, but is it necessary to assume that it would be a banking monopoly?—I do not see that it could be otherwise. The State bank would have the advantage of all the Government money at their disposal, they would pay nothing for that money, and so we would be very considerably handicapped.

2680 You say it would virtually mean the establishment so far as the exchange banks are concerned of a banking monopoly?—That is, if they got exchange business, they would drive us off the field entirely.

2681 If they did exchange bank business freely without any restriction?—Or at all.

2682 Supposing the State bank was authorised to remit the amount required to meet the home charges only?—Do you mean that instead of selling Council bills here they should buy bills in India?

2683 Yes?—What bills would they buy?

2684 Bills on London?—What bills?

2685 Merchants' bills, I suppose?—Then they would drive us off the field.

2686 Would they, if they were restricted in amount?—If they bought any sterling bills at all they would be able to quote lower rates than we could.

2687 But only to that extent?—It would ruin the exchange business so far as we are concerned.

2688 You say you think a State bank would not foster the extension of the note issue so well as the Government treasuries, is it not the case that banks are usually understood to be able to foster a note issue better than any Government department?—I should not think that would be the case in India. I do not think the State bank could handle the note issue at all.

2689 If you gave a State bank an interest in the extension of the note issue, would they not be likely to foster it then?—I do not think they would be capable of managing the paper currency department. It would take the State bank years and years to get into the position that the currency department are in now. As I have said, there would probably be a breakdown in the currency arrangements which might be very serious indeed.

2690 (*Sir Shapurji Broacha*) You have both been managers for a very long time in India, I think?—I have been a bank manager for over 30 years.

2691 And so has Mr Fraser?—(*Mr Fraser*) 17 years.

2692 You have passed most of your time in India in one Presidency or the other?—(*Mr Toomey*) I have (*Mr Fraser*) I have been in Bombay and Calcutta.

2693 And you are in daily connection now with India through your branches?—(*Mr Toomey*) Yes. We are constantly getting telegrams home and sending them out.

2694 I suppose you get three or four telegrams a day and very long ones too, of the state of the market and so on?—Yes. We are thoroughly acquainted with every move in India in exchanges.

2695 So that, so far as practice and length of experience are concerned, you can give an opinion on Indian finance which will be as good as, if not better than, most people's?—I suppose our opinion is as good as the opinion of other people.

2696 And, of course, the opinion you give will be with a view to enhance the prosperity of India?—We are desirous that the prosperity of India should increase (*Mr Fraser*) What we feel is that our interests are intimately bound up with the prosperity of India. If India is prosperous, the banks are prosperous, naturally.

2697 I think you export a good deal of gold as merchandise?—(*Mr Toomey*) Yes, we are regular shippers of bar gold to India.

2698 Amounting, would you say, to half a million or three quarters of a million a month—I am speaking of the whole of the exchange banks among themselves?—I will give you the figures. Last year, 1912, the shipment of bar gold and other uncoined gold amounted to 3,466,000l., in 1911 it amounted to 3,943,000l., and in 1910 the figure was 3,360,000l.

2699 Supposing there were a mint, that gold would not go into the mint, would it?—No.

2700 Do you know of any gold exported from a foreign country which would go into the mint?—No.

2701 You would not send gold on your own account to be minted there?—No.

2702 The sovereign would be the cheapest form of gold you could send?—Yes.

2703 Therefore, I suppose, you would say that it would be a waste of money to open a mint for gold in Bombay?—Yes, we say that India can get sovereigns now cheaper than if she had a mint. She gets the sovereigns laid down in India free of cost, that is to say she only pays 1s 4d for them, whereas we, the banks and other people, pay the freight and charges.

2704 Bar gold goes to India at about 1½ per cent above the sovereign, taking the sovereign at 15 rupees, because it has to pay the bank's profit and the other charges for exchange purposes?—Yes.

2705 Again, that gold is divided into several chops, and some bank's chops fetch a higher price, as much as a sixteenth higher than others?—Slightly higher at any rate.

2706 Is it your experience that India has sold gold and exported gold sometimes in famine years?—It has done that, but very seldom (*Mr Fraser*) In Bombay, as I think you know, Sir Shapurji, as well as I do, in the famine of 1894 and 1895 when exchange fell very low, India sold rather a large amount of gold which came out of hoards. Whether that was due to famine conditions or to the very low value of the rupee I have never quite made up my mind, but the exchange banks did at that time export large quantities of gold from India.

2707 To England?—Yes.

2708 That came out through the necessities of the people, and partly perhaps because gold had gone up to something like 12 or 15 per cent corresponding to the fall of silver?—That is so, it was probably a combination of those two causes.

2709 Would you say, therefore, that famine times are the only times when Indian gold would go into the mint?—(*Mr Toomey*) Yes, that is the only time (*Mr Fraser*) Under existing conditions any shroff in Bombay, who holds a lot of gold ornaments which he may have collected in various up-country centres, can take those ornaments to the mint and they will melt them and give him the gold in the shape of a gold bar which he can take away and immediately sell to any exchange bank. Therefore, the mint to that extent is open to gold at the present moment.

2710 When the Secretary of State sells at 1s 3½d that is not breaking the par of exchange, is it?—(*Mr Toomey*) No, that is keeping the par.

2711 Supposing there were 30 millions in the Gold Standard Reserve, how much of that would you like to keep in liquid gold?—We would not like to name a figure. There ought to be a fair proportion of that in liquid gold.

2712 What would you call a fair proportion—two thirds?—If you must have a figure, I should say certainly 10 millions (*Mr Fraser*) I prefer 15 millions myself.

2713 In the crisis of 1907-8, when I called on you to ask your views, do you remember that at that time you asked me to bring to the notice of the Secretary of State that he should guarantee exchange

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at 1s 4d, as, under pressure, you were then bringing all available funds from India to here?—It is hardly correct to say we were bringing all available funds. What happened was that merchants used to remit and we could not get exports to balance therefore not being philanthropists we had to fall back upon somebody.

2714 The point is that you would not have got so much funds as you actually got if you had not that guarantee?—We would not have been asked for that same amount.

2715 Your idea was, let us get the funds over here, and we can meet the loss of 1/4th afterwards—I take it that that is what was in your mind at that time?—(Mr Toomey) There was a certain hesitation on the part of the Government in giving us drafts on London and that forced exchange below 1s 8 1/2d.

2716 That brought about the panicky feeling. Why should you not have, for instance, all the Gold Standard Reserve in liquid gold?—It would be too expensive.

2717 Do you calculate always the expense of a thing when there is a necessity for it?—I think we must always calculate the expense.

2718 Will not 30 millions or 40 millions of liquid gold give an actual security when short-dated securities would not?—We say it would be a waste of interest.

2719 Is that your only argument?—It would be an absolute waste of interest.

2720 Are you not wasting much more money in other directions which you could do without if you got this absolute security?—It would be throwing money away to keep it all in gold.

2721 If we had the same Army and Navy that we had before the Boer War, or at the time of the Boer War, we might have paid off the National Debt by now?—We might not be here at all.

2722 But the nation did not consider interest in that matter, it wanted absolute security?—It would be an absolute waste of good money to keep all that in liquid gold.

2723 Do you think in a time when war, panic and crisis all come jointly, the 20 millions of short dated securities which you hold would give much confidence? Would there not be the fear that they might be cashed, and that instead of giving cash to the market you would take away some cash from the market?—We can hardly prepare for every eventuality that may possibly occur.

2724 Supposing the taxpayers do not want interest, what would you say to that? Would it be philanthropy, or that they had no sense, or what?—I do not think India should throw away that money.

2725 I will put it in another way, we know that there is very little gold against the vast commerce of this country—in fact, the two are not commensurate?—That is so, the fact is there is not enough gold to go round.

2726 Other countries are losing interest—France, Russia, and the United States are losing interest. Have they less sense than our bankers and our Government about the security or the safety that gold gives?—No. No doubt they have got immense hoards of gold, but it is doubtful whether it is necessary for India to keep all her gold actually liquid.

2727 Do you admit that India has more power to absorb gold than most commercial countries?—Her capacity for absorbing gold is very remarkable.

2728 Is not India's interest combined with the interest of this country?—Certainly.

2729 Supposing India is allowed to collect gold in the Gold Standard Reserve, would there not be a further security to the Empire in a time of crisis?—I am not disputing the fact that it would be better to have the whole of the Gold Standard Reserve in actual gold, but at the same time I do not advocate that because, as I say there would be a loss of interest.

2730 That is the only way you take it?—That is the only way I take it.

2731 Of course liquid gold would be better?—It is naturally better.

2732 The Bank of Germany has been taking away all the gold that comes from South Africa, and they

have taken away about three millions in the last few weeks, why should not India, if she is willing to pay for it and do without this interest for her own safety?—If she wants to do it, let her do it, I do not want to interfere with her.

2733 Do you not think that about two millions more in cash in the Bank of England now would give a little filip to the rates of interest in the market?—Do you mean two millions of money belonging to India?

2734 No, but suppose the Bank of England had two or three millions more gold from South Africa?—Certainly that would be a relief and an assistance to this market.

2735 Money is getting dearer every day, and there is a great cry for it, is there not? Are you not afraid of that?—It is much better to have stronger banking reserves in London, I admit.

2736 If England were engaged in a war, would it be a greater help to you if the Government of India had 20 millions in securities than if the Government of India had 20 millions in liquid gold? Would you not rather start with the liquid gold, so that the Secretary of State would be free from the necessity of letting the exchange go as it liked?—I can only say it would be a very fine thing if India could keep all that Gold Standard Reserve in gold.

2737 Would it not be better than securities?—(Mr Fraser) One might almost say that to some extent you would be penalising India for the benefit of the Empire. Of course, if India wishes that, let her do it.

2738 India has petitioned, India has said to the Secretary of State in Council by those through whom she can speak that the people of India want gold?—(Mr Toomey) That they want the whole of the Gold Standard Reserve to be in actual gold? That is not the widespread voice of India, surely?

2739 Do you not know that the Indian Government asked for a very large sum in liquid gold after their experience of the crisis?—All the same, I do not think there is any widespread wish to keep the whole of the Gold Standard Reserve in actual gold. If there is that desire we should raise no objection to it, if India can afford to throw away the interest.

2740 There was about 20 millions that the Secretary of State lent in this country, you said just now, could he have lent that money in India?—Nothing like it.

2741 Then of course if it had been sent to India it would have been lying waste there, and it would have created an actual monetary difficulty in the market here, because the withdrawing of 20 millions is not a small affair?—What would they have done with the 20 millions in India?

2742 Nothing, I suppose?—Except lock it up.

2743 It would have been locked up and wasted for the time being, whereas it would not only have earned interest over here, but it would have kept the money market here comparatively easy?—Yes.

2744 Is it not the case that all the world likes to keep this market as easy as they possibly can afford to do, because their interests are very much dependent on the bank rate of interest and the London money market rate of interest?—Yes, I follow that.

2745 Suppose the London money market is easy, is it not the fact that there would be more buyers of produce in other countries owing to the cheapness of money, and would not India be benefited to that extent?—Indian trade will not increase merely because the Bank of England rate is rather lower.

2746 If the money market is cheap, and if the bank rate is lower, is it not the case that there are more buyers of luxuries and more buyers of produce from India than when the bank rate, say, is 7 per cent, when there is a difficulty to discount your bills, and when there would be a direct loss to India because she could not sell her produce at better rates?—With a high Bank of England rate the merchant in India has to make various calculations as to the rate at which bills can be discounted, and so forth, which may reduce the price slightly of local produce, but beyond that there would be no contraction of trade.

2747 Would there not follow a contraction of trade if the money is kept here and if the money here

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is dear? You would not be very prodigal of sending money to India then, and that would create an export difficulty to a certain extent, would it not?—The trade of India, whatever it is, must go on whether the Bank rate is low or whether the Bank rate is high

2743 That is right, I agree that it must go on. But take wheat, for instance, if it is only worth four rupees, do you think the same export would continue as when wheat was worth five rupees, do you think it would be bought to the same extent when it can only be financed with very great difficulty as it would when it could be easily financed?—I cannot conceive of any great difference

2749 It is no benefit, is it, to make an artificial stringency here by taking away money to India which is of no use there?—Certainly it is no use taking money away from us and putting it down at Bombay where it is not wanted. The lower the bank rate here the better it is for the Indian merchant, because then he is able to sell his bills at a better rate than he would otherwise

2750 You said just now that the export and import trade is interwoven, therefore you know how the Government of India can give facilities by lending money during the export season as they do here?—Yes. There is no reason why the Government should not lend its surplus balances in India

2751 In a time when there is more money here and less in India, and therefore in a time when the Government of India could not lend for the benefit of India, do you think the Secretary of State might transfer some funds there?—There is no reason why he should not, if the Government happens to be hard up in India. At the same time there is a very limited field for lending money in India. (Mr Fraser) Outside the Presidency banks there could be no large borrowers with the security that would be required by the Government of India

2752 Would the proper course be to lend through the Presidency banks?—We would concur in that view

2753 At a lower rate of interest?—They must make a profit for the risk

2754 That interest should be automatically lower than the bank rate as long as the money is used through the Presidency banks?—(Mr Toomey) Quite so

2755 Does it make any difference to India if we keep a portion of the gold here and a portion of the gold there?—No, I think not

2756 There is sufficient there in case of necessity?—Quite so

2757 Would you say that the safest place for the Gold Standard Reserve is England?—Yes

2758 Because you could make no use of it in India except for the purposes of exchange at certain times?—Quite so. It should be kept where it is likely to be wanted, which is London

2759 Are you in favour of the Secretary of State guaranteeing the exchange at 1s 4d and not allowing it to go below the parity of 1s 3½d?—If you mean that the Secretary of State should intimate that he will protect exchange under all circumstances, yes

2760 Do you think there is a redundancy of silver currency in India now?—I do not think so. As I have pointed out, sometimes there is a scarcity of rupees. I have some tables here which may be of interest to the Commission. We instructed our branches some time ago to get an exact account of their receipts and disbursements of currency notes, silver, and gold, and I have the information summarised here. The manager of our Calcutta branch reports that his receipts included 90 per cent of currency notes, 9½ per cent of rupees, and only ½ per cent of gold. Those are his receipts for four weeks

2761 (Sir James Begbie) What were the dates of those?—10th May, 17th May, 24th May, and 31st May, they were four weekly statements

2762 This year?—Yes

2763 Is this a branch of your National Bank?—Yes

Bombay reported\* —

Currency notes	- - -	99½ per cent
Rupees	- - -	7½ "
Gold	- - -	1½ "

Madras —

Currency notes	- - -	95½ "
Rupees	- - -	3½ "
Gold	- - -	½ "

Karachi —

Currency notes	- - -	97½ "
Rupees	- - -	1½ "
Gold	- - -	1½ "

Delhi —

Currency notes	- - -	27 "
Rupees	- - -	36½ "
Gold	- - -	36½ "

Lahore —

Currency notes	- - -	85½ "
Rupees	- - -	8½ "
Gold	- - -	6½ "

Cawnpore —

Currency notes	- - -	29½ "
Rupees	- - -	38½ "
Gold	- - -	32½ "

Amritsar —

Currency notes	- - -	61½ "
Rupees	- - -	20½ "
Gold	- - -	17½ "

The next branch on my list is Cochin, and it is a remarkable fact that in Cochin gold is very freely taken —

Currency notes were only	- - -	4 per cent
Rupees	- - -	15 "
Gold	- - -	83 "

Then at Tutacorn, which is quite near to Cochin, you have this extraordinary difference, that the notes represent 73½ per cent, the rupees 25½ per cent, and the gold 1 per cent

2764 (Sir Shapurji Broacha) They are almost neighbours in regard to their geographical position, are they not?—Yes

2765 (Chairman) Can you give any explanation of the wide discrepancy between those two neighbouring places?—It is impossible to say

2766 There is nothing in the nature of the trade that would explain it?—No, I think it is more in the nature of the native. I have the receipts for three other branches here, they are—

Chittagong —		
Currency notes	- - -	6½ per cent
Rupees	- - -	93½ "
Gold	- - -	½ "

Rangoon —

Currency notes	- - -	91½ "
Rupees	- - -	8½ "
Gold	- - -	½ "

Mandalay —

Currency notes	- - -	46½ "
Rupees	- - -	53½ "
Gold	- - -	nil "

One thing that comes out rather strongly in this table is the small amount of gold wanted in the Presidency towns and the large percentage wanted at up-country places

2767 (Mr Keynes) Are those actual amounts or only percentages?—They are percentages that I have been giving you

2768 (Mr Gladstone) Could you give the average percentage of the whole?—The average of the percentages of the whole of the 13 branches I have given you is, currency notes 62 per cent, rupees 24 per cent, and gold 14 per cent

2769 (Sir Robert Chalmers) We should like to get the figures in their proper perspective. As they stand now, one branch may be speaking of a million pounds and another of a hundred thousand pounds. If you would imagine that the actual figures from each branch were separate items in one central account, and if you would kindly add up all the gold amounts in one total, all the rupees in another, and all the notes in a third,

\* See also Appendix XVIII, pp 541-2

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[Continued]

and ascertain the percentages of those three totals, we should be able then to get percentages which would be adjusted and properly weighted?—I will do that.\*

2770 (*Sir Shapurji Broacha*) Now in regard to a State bank, the Presidencies are very jealous of the credit of their merchants, and the people in Calcutta might not do justice to the requirements of the Bombay people, but unless they had the power of committing Bombay there could be no central government?—That is so.

2771 The percentages you have given us show that although gold is free now, it is not used much in comparison with rupees?—That is so in the Presidency towns and large places.

2772 As you know, all the trade in India is done in cash, and I think they are short of rupee coinage, although they prefer rupees?—Very often they are short of rupees.

2773 At present, I think there is only half a rupee per head in the Currency Department?—That may be so.

2774 That is very little for the people of India. Do you know that in France, even in the Currency Department, there is something like nine rupees a head in silver, let alone gold, and that in Germany it is something like three rupees a head, so that half a rupee per head in the Currency Department in India is very little?—Of course, India is a very much poorer country, or rather the bulk of the population are very poor.

2775 The poorer the country the fewer instruments of credit they have, and therefore they require more cash to circulate among them, as all their transactions are much more on a cash basis?—Yes, that is so.

2776 (*Mr Keynes*) From the figures you have read to us I got the general impression that where notes were not much used both rupees and gold were used more than elsewhere, do you think that sovereigns in the Punjab mainly compete with rupees as a form of currency or with notes?—With rupees (*Mr Fraser*) I agree with that.

2777 In those figures you gave us it was the case, was it not, that where the gold was used in a high percentage, the notes were used in a low percentage?—(*Mr Toomey*) In some places where there is a currency office, notes are freely taken, they are not so freely taken where there is no currency office.

2778 Would you say that they use gold in the Punjab a good deal because they have not got into the habit of using notes, or is it for a different reason?—In some places they have never used notes to any extent, and they are taking sovereigns now in place of rupees.

2779 In other parts of the country, as they give up rupees, they take notes instead of rupees?—Yes, there has been a great expansion of the note issue, and one reason for that expansion is the making of the 10-rupee note universal.

2780 Would you prefer that the rupees should be replaced by notes as they have been in Bengal, or by sovereigns as they are being in the Punjab?—(*Mr Fraser*) I should not say that notes have replaced rupees in Bengal. The whole of the vast jute trade in Bengal is practically financed in rupees, and there is very little object in sending notes to Bengal because they do not want them. Then the rice crop in Burma is almost entirely financed by hard cash.

2781 I was not speaking of that, but I noticed that in the figures Mr Toomey gave, Calcutta had a very high percentage of notes?—That refers to Calcutta as a town, and not to the district.

2782 Is that a more desirable tendency than the tendency in the Punjab, or a less desirable one?—I should prefer to see people taking notes to gold or silver, do you not agree? (*Mr Toomey*) Yes.

2783 Sir Shapurji asked you how much liquid gold you thought there ought to be in the Gold Standard Reserve, and you, Mr Toomey, I think, gave 10 millions as the sort of figure you had in your mind, and Mr Fraser thought about 15 millions?—That is so.

2784 Are those figures contingent in any way on the amount earmarked in the Paper Currency Chest?—That figure was given on the present figures of the Gold Standard Reserve.

2785 Was it on the assumption that there were about six millions in the Paper Currency Chest?—Are you talking about the Paper Currency Reserve along with the Gold Standard Reserve just now?

2786 I am asking you whether you made any assumption as to the amount held in London in the Paper Currency Chest when you gave 10 millions as the right figure for the Gold Standard Reserve?—No. We took the Gold Standard Reserve as a separate thing, and said that there ought to be 10 millions out of the present holding in the Gold Standard Reserve.

2787 You think that figure is entirely independent of the amount of gold held elsewhere?—Yes, we do not take other figures into account.

2788 Even if the Secretary of State held 10 millions in liquid gold in the Paper Currency Chest, would you still think that he ought to hold 10 millions in the Gold Standard Reserve?—What we say is that the Gold Standard Reserve amounts to about 22 millions sterling, and out of that there ought to be at least 10 millions sterling held in actual gold, Mr Fraser says 15 millions.

2789 But why?—Because we want to see the Gold Standard Reserve absolutely strong.

2790 I suppose your object would be in order that the Secretary of State should have liquid resources that he could put his hand on, or would you have any other reason? If he has other liquid resources, would not the amount wanted in this particular reserve be less?—(*Mr Fraser*) The point in connection with the gold in the Paper Currency Reserve is this—that it is not earmarked, and that it would have a tendency, as it has at the present moment, to dribble quietly away.

2791 I am speaking of the gold in the Paper Currency Chest in London?—If you lay down a rule that you are going to have a certain amount of gold in the Paper Currency Chest in London, you could, of course, take that into consideration in gauging the amount you would have in your Gold Standard Reserve, and to that extent you could bring the two together.

2792 When you gave 15 millions as the right figure for the Gold Standard Reserve, were you assuming that about the present amount, namely, six millions, would be held in London in the Paper Currency Chest?—Yes.

2793 If that was increased, then you would not want so much in the Gold Standard Reserve?—(*Mr Toomey*) The amount in the Paper Currency Reserve in London is a fluctuating quantity (*Mr Fraser*) It is merely the first line of defence in the matter of exchange as it stands at present, but it is only the first line of defence really as long as it remains in London, because whenever it is in India it has a tendency to dribble away, and it is usually not there when it is wanted.

2794 If the policy was followed of having a good deal of gold in that reserve in London, would that influence your opinion of the amount that ought to be held in liquid form or in the most liquid form in the Gold Standard Reserve?—To some extent, yes. You can never have a large amount here because, as Sir James Begbie brought out, if you have an excess amount of gold here against your note issue in India, then you run the danger that you cannot redeem your notes, because you have your reserve in London, while your liability is in India. Therefore, the amount at which you can place your gold in London against your notes must always be limited in my opinion.

2795 But it might be somewhat larger than it is now?—It might be, but that is a point which would have to be gone into very carefully, and I should think the Government of India's Currency Note Department would be very well able to form an accurate opinion as to how much could be done with safety.

2796 If it were found to be safe to have a certain amount of gold in London, would you say then that that amount ought to be taken into account in fixing the amount of gold in the Gold Standard

\* See Appendix XVIII, pp. 541-2

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[Continued

Reserve?—You should certainly make allowances for it. As soon as it began to disappear, then it would be about time to begin selling your securities, I should think.

2797 In the course of your evidence you have suggested that the Government of India should lend money in India to the Presidency banks?—(Mr Toomey) Yes.

2798 In 1900, when there was a suggestion of that, the exchange banks put in a claim to have a certain share of that money?—They did.

2799 But you do not endorse that?—(Mr Fraser) We do not endorse it. (Mr Toomey) We say the money should be lent to the Presidency banks only. If we want money we should apply to the Presidency banks, and they could make then 1 per cent or whatever it was out of it. (Mr Fraser) We have no grievance against the Presidency banks as lenders, we have always found them reasonable. I speak from my own experience. (Mr Toomey) I say the same thing.

2800 I only wanted to get that point plain, that you did mean us to infer from your answer that the exchange banks were making no claim to have money lent to them in India direct?—No, they make no such claim. (Mr Fraser) I might say that the manager of one of the foreign banks in London, in writing a personal note to myself on our evidence as detailed in our memorandum, said that he thought the Secretary of State's approved list might be enlarged so as to bring some of the foreign banks into it, provided the foreign banks could put down the security asked for. I merely thought it right to mention that.

2801 That was referring to the approved list for loans in London?—For loans in London only.

2802 (Lord Faber) You have told us, I think, that it is not always easy to change gold into rupees?—(Mr Toomey) I gave you one instance of that at Delhi.

2803 Can you always do the converse—change rupees into gold?—There is no obligation on the part of the Government of India to give gold out in exchange for rupees. At present the people of the country can tender rupees and get gold, but I do not think it would be advisable for the Government of India to enter into any obligation of that character, you would get on to a gold currency at once.

2804 With regard to exchange, am I right in thinking that if the balance of trade is in favour of India then England must pay that balance by buying Government bills or by exporting gold?—Practically.

2805 Is the balance of trade generally in favour of India as against the world?—Yes.

2806 India has a credit account?—It is generally in favour of India, except at such times as when we have a famine.

2807 Like England India is a creditor country and not a debtor country?—It is a creditor country.

2808 You will agree with me, I think, under those circumstances in thinking that India will not want as much gold, being a creditor country, as it would if it was a debtor country, because the ultimate balance of foreign trade has to be settled in gold?—That is so. If India was not so successful she would take less in the form of remittances.

2809 (Mr Keynes) I come now to the question of the proposal for a State bank. You stated in your evidence that the establishment of such a bank would result in a banking monopoly. Do you mean by that that the exchange banks would be almost driven out of existence?—They would.

2810 Would your objections be met to any appreciable extent if the State bank were precluded from accepting deposits in London—outside India?—(Mr Fraser) That would not help. (Mr Toomey) No, that would not help the situation at all. (Mr Fraser) I do not think the central bank would ever come here for deposits. Our deposits in London are not such an all important item in our business, and I do not think they would come here and compete.

2811 Am I to understand then that the exchange banks do not regard it as an important part of their business to attract funds in London and use them in India for financing trade?—(Mr Toomey) We take

deposits in London, and we certainly look upon that as an important factor in our business.

2812 That part of your business would be left untouched?—Yes, but it is not such a very large item. (Mr Fraser) The question, of course, is a central bank with power to borrow in London. The assumption is that they would either offer the same rate as we do or a better rate, and the chances are that they would offer a better rate than the exchange banks in all probability, having regard to the fact that they have the backing of the Government.

2813 If the State bank were precluded from attracting deposits outside India would that remove your objection?—(Mr Toomey) No, not at all. (Mr Fraser) Certainly not.

2814 Your reason for this answer is that that part of your business, namely, attracting funds in London for financing Indian trade, is not an important part of your business, is that it?—(Mr Toomey) We say that if the State bank had a London office and did exchange business we would be driven off the field.

2815 I understand you to say that, and I am trying to get at your reasons for saying it. I have pointed out one part of your business which would be unaffected, and I understand your answer to be that that is not an important part?—The London deposits are not so very important.

2816 (Chairman) In speaking of London deposits, do you mean English money or United Kingdom money?—Yes.

2817 (Mr Keynes) You would, therefore, lay no stress upon the claim which has sometimes been made by the exchange banks that they play a most important part in financing Indian trade by attracting funds in London for that purpose?—We do not make a point of that.

2818 Suppose that the State bank were limited in its dealings in exchange to remitting about the amount the Secretary of State required, say, 25 millions a year, would that modify your objections?—It would not modify our objections in the slightest degree. If they were allowed to operate in exchange at all, the results to the exchange banks' business would be very serious.

2819 If they remitted merely the balance of trade, that would only be a fraction of the total trade—shall we say one-fifth?—If they were quoting rates of exchange, they would be able to quote much better rates than exchange banks could.

2820 Why should they wish to do so? They would probably wish to remit money to England at a favourable rate to themselves as they could?—If they were to enter the exchange market it would be practically all up with our business.

2821 I do not understand why you assume that they would force the rate of exchange down?—They would have to quote better rates than the exchange banks, and we would have to sit out.

2822 Would they affect you more than the establishment of a new exchange bank, which attracted, say, one-fifth of the business?—We do not object to other banks starting, if they have got to start on the same footing as ourselves.

2823 Would you be wiped out by a bank which was restricted to doing no more than one-fifth of the business?—One-fifth of what business?

2824 One-fifth of the remittance business?—If a new bank were to start in the same way as we have had to start, they could only quote about the same rates as we do, and they could not cut under our rates, but a State bank could do business with no profit at all. (Mr Fraser) We have a very good illustration of that in the Reichsbank in Germany. When the Reichsbank wants to influence exchange it is not a matter of profit or loss, they operate, and the other banks stand still and look on.

2825 That is, when they wish to attract gold?—It would be the same thing with a State bank in India. When the Secretary of State wanted remittances from the Government of India, the State Bank would go on remitting to him, and we should not be able to enter the market and buy because it would not be a question of profit with the State bank.

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[Continued

2826 At present the Secretary of State stands out for as good a rate as he can get, does he not?—We do not admit that. He takes the market rate.

2827 He does not undercut the market rate, he does not run the market?—Certainly not.

2828 Why should a State bank act very differently and have a very different effect on the market, from the Secretary of State, supposing it were remitting to the same amount?—The central bank would have to operate in India, and they would have to undercut and reduce rates until, we argue, there would be no profit left in exchange and we would have to go out, because there would be nothing left for us. You can only work an exchange business to make a small profit—the profit is small, and it is the turnover that makes the money. If that profit disappears, and you have not got anything to work for, you would naturally go.

2829 The State bank would have to offer a rate which would enable it to get 25 millions' worth of bill in the course of the year?—Yes.

2830 For getting those bills it would want as high a rate as it could get?—(Mr Toomey) They would not bother about any particular profit. (Mr Fraser) They are working with funds that cost them nothing to start with.

2831 Your view is that the State bank would not work for a profit and so would run your business?—Would run our business by undercutting.

2832 I think I understand your opinion now. The arguments against the State bank given in your memorandum do not touch, I think, all the points which might be raised in favour of a State bank by an advocate of such an institution, and I want to put to you one or two of the other arguments which might be used in favour of a State bank, and ask you what your feeling would be in regard to those arguments. The first point is in regard to Government balances. This year, during the earlier part of the year, the Government had in its reserve treasuries something like seven millions apart from large sums in other treasuries, it has been held that while it might lend a small part of that to the Presidency banks it could not lend to private institutions any very large part of the seven millions?—(Mr Toomey) They would not be called upon to lend any very large sums, the securities do not exist.

2833 The point is that they could only lend to private institutions on security?—Quite so.

2834 The private institutions could not offer much security of a suitable amount, and therefore there is a strict limit to the amount that they could lend to the private institutions?—Yes.

2835 If there were a State bank those difficulties would be somewhat removed, and instead of having the independent Treasury system, they could then pass not the whole but a very much larger part of their balances into the hands of the bank?—(Mr Fraser) To be lent on what—on general business?

2836 To be lent on general business?—Without restriction?

2837 I do not say without restriction?—I should be sorry to think that the Government of India's balances would be lent out without very drastic restriction.

2838 I am putting this point, that in nearly all the countries of the world the Government has a banker?—That is so.

2839 That is to say, there is a State banker with which it leaves nearly all its money, in India that is not possible because there is no State bank?—We of course argue that geographically the country is not suited to a State bank, and it never can have one.

2840 (Sir Robert Chalmers.) In the Presidency banks may it not be said to have State banks already?—(Mr Toomey) We say that India has got practically three State banks already.

2841 (Mr Keynes.) But being private institutions, they cannot receive more than a small amount of Government money. Do you think it would be possible to place an advantage in a State bank that more Government money could be placed with it?—Do you mean it would be a greater advantage if the Government

placed larger sums with the existing Presidency banks?

2842 It would be an advantage if they could, but they cannot, because these Presidency banks are private institutions?—(Mr Fraser) We suggest that one way of getting over the difficulty is to lend the Government funds beyond the agreed-upon amounts to the Presidency banks against security.

2843 But, on the other hand, I gather from you that the amount of such security forthcoming is small?—The Presidency banks can always put down, I should think, as much as they want in that respect.

2844 Do you think, therefore, that large sums could be lent against security to the Presidency banks?—I should think the position of the Presidency banks is such that they could always borrow on security all they could reasonably require.

2845 Five millions?—I should not like to say what the actual figure was, but I should not think India is ever likely to want five millions. We do not admit that there is a need for further banking facilities in India. As a matter of fact, for a large portion of the year we cannot use our money there, at the present moment the Bank of Bengal rate is 4 per cent and we cannot get 2 per cent in Calcutta for call money, or even 1½ per cent there.

2846 Do you think it would be an advantage if in the busy season more money was available in India?—I think it would be, but then it would not be such a very large amount that would be required. I should think that two or three crores more on the Indian money market would mean the difference between poverty and the other thing. The very suggestion that you were going to lend two or three crores would bring out the Shroff's money and other money, and that would relieve the stringency.

2847 Do you think that if two or three crores of rupees were lent the high bank rate in the busy season would disappear?—I should think so. (Mr Toomey) Two or three crores will go a long way towards making the market easy.

2848 Your estimate seems optimistic?—(Mr Fraser) We speak from practical experience. We cannot employ our money now in India at a profit, it is simply lying idle. You will understand that, when you consider that the mills in Bombay can get money all the year round, and have got it, for 4½ per cent per annum.

2849 Would they not be prepared to do that here for the whole year round?—No, the Manchester mills cannot get it on the same security.

2850 I was not, however, speaking of all the year, I was speaking of three months, the busy season?—Money at that time runs up and a very large number of merchants make special terms, so the rate is not regulated by the bank rate.

2851 Am I to understand that a sum of two millions sterling lent during the busy season would be sufficient to prevent the Indian bank rate from rising to any high level?—It is difficult to state definitely that it would, but I should think, judging by the experience of the past, that two to three crores of rupees would make a great deal of difference. The past season has been an exceptional one, and there has been a lock-up of money in Bombay in opium, and a very large lock-up. (Mr Toomey) And in cotton too. (Mr Fraser) And in cotton, because cotton did not go forward owing to difficulties on the Continent. These two factors have very largely contributed to the present position. There is also a considerable amount looked up at the moment in yarn. Therefore, although there has been rather a high rate this year, which was more stringent in Bombay than in Calcutta, there is no reason to suppose that is going to occur next season. The tendency before that was for money in India to come down steadily in value, and I think Sir Shapurji will confirm my view that money will tend to become cheaper year by year in India.

2852 (Chalmers.) But it runs up to 7 per cent or 8 per cent in the busy season?—(Mr Toomey) It has not been above 8 per cent for the last five years.

2853 When you say three crores would make a considerable difference—I do not want to make you

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2853 speak with more confidence than you feel—do you mean it would probably keep the rate from going above 6 per cent?—(Mr Fraser) I should hardly like to say that, but I think it would mean all the difference between stringency and the other thing I think a 6 per cent rate in India is not at all burdensome to anybody

2854 (Mr Keynes) Do I gather you would feel there would be no advantage in a State bank if it had the effect of lowering the rate of interest in India below 6 per cent in the busy season?—(Mr Toomey) I think there are very few complaints in India as to a bank rate of 7 or 8 per cent. At that time the merchants are all making money and they do not complain of these rates

2855 Would you say a 7 or 8 per cent bank rate would help you?—It does not hurt anybody

2856 It does not hurt anybody?—Not for the two or three months (Mr Fraser) If you make money very cheap the native hangs on to his produce and speculates on his produce, and I do not think the merchant or exporter would thank you very much for that

2857 The arguments which I suggest to prove that the existence of a State bank might have the effect of lowering the bank rate do not impress you very much because you do not regard it as an object to reduce the bank rate?—(Mr Toomey) We do not like to see money too tight, of course, but we do not look upon a bank rate of 7 per cent as out of the way in the busy season (Mr Fraser) One would not object if the bank rate never went over 6

2858 I go now to a point connected with this, but rather different. In the past there have often been banking crises in India, but not within the last ten years, I think?—(Mr Toomey) Was there any banking crisis ten years ago?

2859 There has not been a crisis for at least ten years or more?—Not for a good many years

2860 Within the last ten years there has been an extraordinary growth of deposit banking in India?—Yes, and the resources of the exchange banks have steadily grown

2861 The figures published in the official statistics are that the Indian deposits of the exchange banks in 1901 were 7,900,000l and in 1910 16,200,000l?—There has been a steady growth of deposits

2862 Their cash resources in that same period increased from 2,200,000l to 2,900,000l?—Those figures do not explain everything

2863 I should be much obliged if you would amplify them?—We always have a lot of money on the way out in the shape of Council bills (Mr Fraser) And sovereigns too (Mr Toomey) Sovereigns from Australia, London, and so forth (Mr Fraser) I might say that in the figures we recently gave to the Government of India, speaking for the bank I represent, we did not include three quarters of a million sovereigns arriving within a week of the figures being published, which we, to a certain extent, of course, regard as cash. These are largely imported against our purchases of exchange, and we probably, in anticipation, have used up some of our local cash resources to meet our exchange commitments, and then the sovereigns come in and fill up the cash

2864 Do you mean that on the particular day on which you made up your books you had less resources in India than you have usually?—(Mr Toomey) No (Mr Fraser) At that particular moment we might have almost included these sovereigns as cash

2865 I can understand that you have money coming in, but I suppose you also have money going out in the immediate future? If your books were made up a fortnight later, would they have shown a better result?—Not having the facts before me, I should not like to make a definite statement

(Mr Gillan) Are these figures you are quoting, Mr Keynes, the figures of a particular day or averages?

2866 (Mr Keynes) They are figures I have taken from the statistics of British India, and no statement is made as to the date?—I believe the dates given are 31st December in each year

2867 I do not want to press this point, all I want to call attention to is that the Indian deposits have very greatly increased?—(Mr Toomey) Yes, they have

2868 There is an important class of joint stock banks that have grown up in India, and their deposits have increased even more than those of the exchange banks?—(Mr Fraser) They have increased enormously

2869 Those banks keep very small cash reserves against their deposits?—(Mr Toomey) Very

2870 So that apart from the Presidency banks the deposits in India are perhaps three times what they were ten years ago?—That may be I accept those figures

2871 With no corresponding increase of cash?—(Mr Fraser) I should not like to make a definite statement on that point, not having any figures before me. I admit the enormous growth of these Swadeshi banks, as we call them, and the enormous growth in their deposits. It has been openly stated in some quarters, but I have not verified the facts, that their cash balances are not adequate

2872 What is the relation of these banks to the Presidency banks, do they have sums on deposit with the Presidency banks to any important extent?—(Mr Toomey) I should think not (Mr Fraser) I should think not too

2873 Do they include in their cash sums left with the Presidency banks, or is it all free cash?—I should think the cash at the Presidency banks is taken as cash

2874 Is that an important part?—I could not say

2875 In the case of the exchange banks do they keep any appreciable sum with the Presidency banks?—Yes

2876 Do they include that in their cash?—Yes

2877 The position is, therefore, that to a quite important extent the Presidency banks act as bankers' banks?—That is so

2878 And there is not much free banking money in India outside the Presidency banks?—Not in the busy season

2879 I want to put to you whether you think that the Presidency banks, taking account of this great growth of deposit banking, are really in a strong enough position to act as bankers' banks?—Assuming they get the facilities from the Government that have been suggested, I think so

2880 But under existing conditions?—If you can imagine a banking crisis when everyone was pulling on the Presidency banks, I should say they probably would not be able to meet the requirements of everybody

2881 How do you feel in regard to these figures, in 1910 the total deposits, excluding public deposits, in India were about 55 millions?—What does that include?

2882 That includes the exchange banks, the private deposits with the Presidency banks, and those Indian joint stock banks which have more than five lakhs of paid-up capital and reserve, the deposits were about 55 millions, and the cash in the Presidency banks was 7½ millions?—(Mr Toomey) That is quite an ordinary average working balance

2883 Supposing there were to be a banking crisis in India everybody would go to the Presidency banks for money?—(Mr Fraser) The exchange banks would probably call upon London, I should think, and take Council telegraphic transfers

2884 I wanted to get out that point. The exchange banks would rather rely in the next banking crisis on being able to remit large sums from London?—I do not say we would rely upon it, but if the necessity were forced upon us—(Mr Toomey) We should have to ship sovereigns or take Councils

2885 Suppose you had to ship sovereigns and to do this to a large amount, because your total deposits in India must be now something like 20 millions, do you think you would find it easy to rediscount your bills and to raise money in London?—(Mr Fraser) We could always discount at a rate

2886 If you wanted to take the money out in actual gold, not at an ordinary time but at a moment



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of crisis, do you think it would be easy for you to do that?—(Mr Toomey) I see no difficulty about it (Mr Fraser) You must also assume that in those conditions the Secretary of State has no balances on the other side, and will not sell Council bills

2887 I am taking this alternative first, that you had to send out sovereigns, do you think the exchange bankers would have no difficulty in raising in actual gold a very large sum in sovereigns in London at a time of crisis?—I should think not. If you assume they could not do it, then of course you stop the export of gold. If you are assuming that we cannot get sovereigns, you mean that we are no longer a free market for gold

2888 I assume they could get gold if they had free resources, and you think there would no difficulty in their obtaining free resources?—We are all constituents of the Bank of England, we know the bills the Bank of England takes, and the Bank of England always discounts bills for its customers. There is no reason to suppose they would not stand by us if we wanted accommodation

2889 The other alternative would be that you should buy large sums in telegraphic transfers from the Secretary of State?—That is what we should naturally do assuming he had money on the other side, which he probably would have, because if he could not draw on his Treasury balances he would probably draw on his Currency balances in an emergency

2890 Then you are rather relying upon him to use his Currency balances to relieve India's banking in a crisis?—We are not relying on that, but we are assuming that in these conditions he would have those means of meeting those drafts

2891 Would you feel in a stronger position if the whole business were more centralised—if the Secretary of State's balances and the bankers' balances, instead of being kept in various places and by various authorities, were all kept in a State bank which would be under a certain responsibility to look after a situation of this kind?—(Mr Toomey) I do not think a State bank would look after the situation any better than we can under existing circumstances (Mr Fraser) I should think the Presidency banks worked in conjunction with the Government would be quite as powerful and as good an influence as any State bank

2892 Do you assume that they would have to work in conjunction with the Government?—They always have, and they always would, I think, in the event of a crisis, work in conjunction with the Government. Assuming such a crisis as you are picturing, which has never exactly come about, but assuming such a one ever did—we have not seen it, but of course we admit it might come—the danger is that India is going rather fast in the matter of banking, and new banks are springing up every day. I have only taken out 14 of what you might call the leading Swadeshi banks—the figures are not all for the same date—and they show a capital of 2 crores 41 lakhs paid up, and deposits of 24 crores

2893 The main point I am putting to you is this—that when the last banking crisis came in India, deposit banking was in its infancy there?—(Mr Toomey) There were very few local banks then. (Mr Fraser) That is so—very few

2894 There has been an enormous increase in their number, particularly in the last 10 years?—(Mr Toomey) Yes.

2895 More particularly in the last five years, and the increase is still going on?—(Mr Fraser) Yes.

2896 So you have no experience as to what would happen if there was a banking crisis in a country where large deposits are now being made and which has not forgotten the habit of hoarding?—I should think that if a banking crisis such as that developed there would be a very serious run on some of the banks. The chances are probably that the old-established banks which have stood the storm and have got a reputation would not be run upon. I cannot say that I remember a run upon our own institution

2897 You have a rapid growth of deposit banking, and a good deal of it in banks which have never stood a severe strain?—That is admitted, I think

2898 And which have also no very high proportion of cash reserves?—I should think that some of what you might call the local banks do keep adequate reserves, but there are probably many of them that do not. I would not like to speak about that with absolute certainty. Such banks as the Alliance Bank of Simla, for example, and the Allahabad Bank have always stood very well, and been conducted, I think, on prudent lines, but there are others possibly that have not been

2899 Further, there is no central banking reserve of any sort, such as the State banks of Europe have?—That is so, unless you accept the Presidency banks as occupying that position

2900 And also there is no sort of mechanism whatever for any sort of emergency currency or for any expansion of the note issue?—(Mr Toomey) Only the Gold Note Act

2901 It can only be expanded against rupees or notes?—(Mr Fraser) Against rupees or the deposit of gold. We can put down gold here and get notes issued in India, or rupees

2902 All the Government can do is to exchange one form of currency for another. They cannot increase the amount of currency?—Except by fresh coinage

2903 So that all the usual precautions which are taken by European countries that have deposit banking against a crisis are incompletely existent in India?—You mean in regard to such precautions as expanding the currency in the event of a crisis?

2904 And having a central reserve?—As regards expanding the currency in India, the people want cash, not notes

2905 I am not saying that ought not to be given, but I mean that as that possibility does not at present exist, it is all the more important that the other sorts of precautions should be taken?—The other precaution being to centralise your reserves?

2906 Yes, and having some important authority which looks at the situation as a whole?—We would leave that to the Presidency banks working in conjunction with the Government

2907 You do not think that a State institution, which was in the habit of working in conjunction with the Government, and did not have to fit up some patch work arrangement in a moment of crisis, would be in a better position to deal with a situation of that sort than a State bank?—Has your State bank solely to deal with the crisis when it arises, or is it to have other functions?

2908 It would have other functions, but it would be practically in touch with the Government?—If we had a State bank which we could fall back upon in the event of a crisis, of course we should rather welcome it. But if we are to have a State bank which is going to take over the paper currency and to have a monopoly of Council bills and of all other Government business free of charge we should naturally oppose it.

2909 Might I put it like this, that while you feel a State-aided body with vast powers of that sort might be open to certain objections, still it is true that the banking position in India would be strengthened by such an institution at a time of crisis?—Granted that the bank exists for that purpose and that purpose only, of course it would relieve the strain

2910 Allowing that for other purposes the bank were detrimental, if that were amongst its purposes would it be a good thing?—That is assuming an unpracticable position

2911 I am not saying there are not any disadvantages?—After all, if you did have a central institution, we all learn by experience, and you do not want banks to fall back too much upon any central institution. Each bank, properly speaking, should so conduct its business that so far as it possibly can be it is independent of these outside aids.

2912 But you would not maintain that that was the case in India at present, would you?—As I understand, the banks keep a great part of their free money with the Presidency banks and keep no reserves of

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their own to any large amount?—I should not like to say what a number of those up country banks do, because they are established at many points where the Presidency banks do not exist, so probably they do keep considerable balances. It is difficult to speak without actual knowledge, and I can only say that in the Presidency towns I think these banks keep their cash with the Presidency banks.

2913 I should like to know, if you can tell us, a little more about the relations of the exchange banks at present with the Presidency banks. I understand that you keep balances with them much in the way in which English joint stock banks keep balances with the Bank of England, is that so?—Much the same.

2914 Do you also borrow from them to any important extent?—In bygone days we did (Mr Toomey) But not now (Mr Fraser) Not much, anyhow.

2915 Not now?—Very little (Mr Toomey) Occasionally, possibly (Mr Fraser) I think in recent years the exchange banks have not been big borrowers from the Presidency banks.

2916 Apart from the question of competition in exchange, would your relations with a State bank be very different from your present relations with the Presidency banks?—Our present relations with the Presidency banks are most friendly. I should think with a State bank they would probably be the reverse.

2917 Is that a sentiment of yours, or have you definite arguments with which to support it?—I do not see how it could be very well otherwise, when we feel that the advent of a bank with all the privileges that have been suggested would naturally mean almost our extinction.

2918 I put aside for the moment the question of competition in exchange, apart from that, why should your relation to a State bank be unfriendly?—You are leaving out the question of exchange entirely?

2919 Yes?—Then they are there simply to benefit us, and exist to help us when we are in trouble.

2920 They are there to consolidate the existing system?—Then we could hardly regard them as enemies. Under those conditions we would not, I should think, feel they were enemies exactly.

2921 So that the central point of your opposition to the proposal for a State bank arises out of the possibility that they might deal in exchange?—That is one reason. Another reason is that we do not think the country on the whole would in any way benefit by a State bank. We cannot see that India as a country is suited for it. We have already given our reasons (Mr Toomey) We look upon a State bank in India as quite impracticable (Mr Fraser) We consider the existing machinery as it exists in the Presidency banks is ample for the country's needs.

2922 Do you think that for the Government to have a banker and for there to be a central institution is no advantage whatever, quite apart from other disadvantages?—(Mr Toomey) I do not see how it would benefit to do.

2923 Assuming a lower bank rate, is not that a benefit to trade?—I do not think people in India are looking out for lower bank rates (Mr Fraser) You can have such a thing as too low a bank rate, especially in India. When you have a very low bank rate it always encourages speculation, and it would very probably bring about a state of affairs which you would rather wish to avoid.

2924 I will not ask you any further questions with regard to the State bank, but there is one further question I should like to put, which is somewhat connected with this. In a country like India, where there are certain dangers in banking owing to the habits of the people, the possibility of speculation and so forth, it is often important to have as much publicity as possible in the various banks. Would the exchange banks feel any objection to publishing accounts in which their Indian deposits were distinguished from their outside Indian deposits, and in which their Indian cash was distinguished from their outside Indian cash, provided all the banks had to do it?—(Mr Toomey) We should have to consult the other Indian exchange banks before we could very well

answer that question (Mr Fraser) Naturally, no one bank would care to do it unless there was unanimity.

2925 I can quite understand that, but if all the banks did it, would your opinion be favourable?—(Mr Toomey) We should have no objection (Mr Fraser) The bank I represent certainly would not object.

2926 You would agree with me that it is important having regard to the whole banking position in India, that there should be accurate knowledge as to what the deposits in India are?—(Mr Toomey) We would have no objection to show them in a balance sheet if it were the general practice.

2927 I understand that you cannot pledge other banks, but so far as you are concerned yourselves, you do not see any objection to it?—(Mr Fraser) Not if the custom were general (Mr Toomey) If other banks do it, we should raise no objection whatever.

2928 There is one other small point. Mr Fraser's bank, I think, distinguishes between fixed deposits and deposits on current account?—(Mr Fraser) Yes, we do.

2929 Not all banks follow that practice, would there be any objection, do you think, to that practice being generally adopted?—(Mr Toomey) I see none from my point of view.

2930 Your bank does not actually do it?—No (Mr Fraser) The Hong Kong and Shanghai Bank does it too (Mr Toomey) We have no objection to doing so.

2931 You do not see any objection therefore against the banks having to show both how much they have in India on fixed deposit and how much on current account?—I do not see any objection to it myself (Mr Fraser) If it is general, but you would not apply it to the exchange banks alone?

2932 No?—It would be applicable to the exchange banks, to the local banks, and in fact every bank would be put on the same footing?

2933 Yes?—I see no objection under those conditions.

2934 Would you have any objection to the publication of balance sheets from time to time which were average balance sheets, that is to say, which avoided all possibility of window dressing?—We could not do it with the exchange banks. Our business is so involved that we could not possibly give you a weekly or a fortnightly balance, or a monthly balance. It takes us probably a couple of weeks at the end of each half year, or more than that, to prepare our balance sheets. It is a complicated business. Then our branches are scattered all over the East, and so we could not possibly give, as the Presidency banks do, the weekly balances.

2935 My suggestion was meant to refer not to your whole business, but only to the Indian part of it. Would it be possible to publish average balance sheets? I do not mean that you should publish them weekly, but that your six-monthly balance sheets should be average balance sheets for the six months and not balance sheets for a particular day?—I should think that could be done. There is always a danger of too much legislation in banking, which we all deprecate. One does not want to be too much under the Government.

2936 I should like to raise once again a point Sir Shapurji put to you. He asked you whether you would welcome a guarantee by the Secretary of State that he would support exchange and you, Mr Toomey, said "Yes," but you said it, if I may say so, without any enthusiasm, am I right in thinking that you do not attach any great importance to it?—(Mr Toomey) He is practically bound to support exchange within the limits of the gold points—1s 3<sup>1</sup>/<sub>2</sub>d and 1s 4<sup>1</sup>/<sub>2</sub>d.

2937 Then you do not feel it would be a very significant thing for him to make an explicit declaration?—I do not think it would make very much difference to the world at large.

2938 You regard him as being already bound?—Yes, practically bound.

2939 So that a formal statement by him would not influence you very much?—No (Mr Fraser) It certainly would not do any harm, but I do not see how

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the Government of India can possibly let the exchange fall without rinning the country and everybody in it.

2940 (*Sir Robert Chalmers*) Is there any instance of any Government making a declaration of that kind?—I do not think there is any on record. The Government acted very weakly in our opinion in 1907-8, when they very nearly ruined the country by not promptly using their reserves. It was the result of a meeting of the exchange banks. I think, in London with the Indian Council that brought about the immediate use of the reserve.

2941 (*Mr Keynes*) You think there is no risk of a repetition of that, and that that risk would be avoided by a definite declaration?—(*Mr Toomey*) I think the Government of India now know exactly where they are, and, in the event of exchange falling, they would promptly give out gold or a draft on London, because they know what they had to do in 1907-8.

2942 From the Secretary of State's point of view you regard him as so much bound already that he would not be adding to his obligations by making an explicit statement?—No.

2943 (*Mr Gladstone*) I think you said money should be lent in India to the Presidency banks, in which case the amount of gilt-edged securities available is limited?—(*Mr Fraser*) Yes.

2944 Would not the exchange banks be willing to increase their holdings of gilt-edged securities, and so increase the total the Government might lend to relieve any exceptional stringency of the money market?—(*Mr Toomey*) Of course that could be done, but we rather feel that the Presidency banks, as a sort of bankers' banks, in a sense, would be better qualified to deal with that. Then of course if the Government deals on a basis of an approved list such as you have in London, you at once bring into existence the necessity for employing brokers, and I do not think the Government offices in India are equipped for that sort of thing, whereas if they deal direct with the Presidency banks they know exactly where they stand and the terms on which the money is lent. Otherwise, you might have to bring in exactly the same machinery as is necessary in London for the India Council.

2945 Hardly, because I am only proposing to approach the exchange banks, and they are so limited in number that it would only mean four or five?—The amount that the banks would gain in the matter of interest would be, in my opinion, so small that I think, broadly speaking, we would prefer to leave things as they are at present.

2946 You have expressed the opinion, I think, that an advance of three crores might be enough to diminish any sudden stringency, but that might not be enough—it might require five crores?—It might, that was only a figure.

2947 If the exchange banks between them hold securities to that extent, it would make the relieving of the market pretty certain?—Yes, assuming the exchange banks have these securities, and can always take them to the Presidency banks and get the accommodation they want, which they could if the Government feed the Presidency banks.

2948 As to the question of hoarding, I think Mr Toomey said the hoarding is on the increase, owing to the greater prosperity of the country, is there not nowadays more disposition to invest in high-class securities at interest, and will not that diminish the custom of hoarding?—(*Mr Fraser*) I think the people of India are undoubtedly slowly and gradually investing more in securities than they used to do, as you can see from the mere fact that securities in Bombay, taking Government paper or Port trust bonds, all stand several points higher in India than they stand in London, which shows that there is a market, a large portion of which is undoubtedly native.

2949 Would you think that investments of this nature are likely to go on?—I think myself that these investments are as a rule made by people who are well educated and can form a judgment of their own, whereas the hoarding that goes on in India in my opinion is largely done by the masses, what you might call the agricultural portion of the people. It is done in small bits, but it is the aggregate that tota up when

you deal with a vast population. If you can by any means educate them up to the point at which they will see the folly of this, then I think the trouble will disappear to a large extent.

2950 (*Chairman*) Do these small people hoard gold?—Probably they start with a rupee, and the chances are when they have got 15 rupees they exchange them for a sovereign, very frequently (*Mr Toomey*) Now the workers in the jute mills and other similar occupations will have their little bits of ornaments in gold, whereas formerly they had their ornaments in silver (*Mr Fraser*) I may mention that one of our agents recently told me that in the Amritsar Fair some of the well to do agriculturists who were present at the fair had strings of sovereigns round their necks, and that that was quite a common thing to see, whereas in bygone days they were content with strings of rupees.

2951 Nowadays they would be penalised if they hoarded any rupees, would they not?—If they realised the difference, which I suppose most of them do, but I fancy some of the very poorest type really do not quite understand it.

2952 (*Mr Gladstone*) Would you favour a larger proportion of the Government railway loans being issued in India, owing to this increase in the demand for investments?—Speaking personally, I should say yes. I think if the Government did more in the way of encouraging private enterprise to build railways in India than they have in the past, they could get more money, especially if they went in for a system of a guaranteed minimum and a share of the profits beyond a certain amount being given partly to the Government and partly to the railways, in other words, more encouragement should be given to private enterprise.

2953 They have given more encouragement of late years, but owing to the rates of interest those inducements are hardly sufficient now?—I think a good deal more might be done in India than is done now.

2954 Do you think a 4 per cent guaranteed railway bond would go down well in India?—That might seriously enter into competition with the 3½ per cent rupee paper if it has got the direct guarantee of the Government of India. It is on record, I believe, that the exchange banks, in conjunction with some of the Presidency Banks, offered an Indian railway company last year three crores of rupees for railway purposes on very reasonable terms—much better terms than have since been accepted by another company—but that offer was not accepted.

2955 One question as to the up-country treasuries. Have you considered whether the very large number that have been established are necessary?—Personally, I cannot speak on that point, as I have had no up-country experience (*Mr Toomey*) I have not had any either.

2956 (*Sir Ernest Cable*) I think you told the Chairman this morning about the Gold Standard Reserve, that you would prefer not to mention any limit?—Yes.

2957 You cannot assist the Commission, I suppose, by suggesting a logical principle on which we could arrive at some figure?—I do not think the time has arrived yet. I think the fund should be a good deal larger than it is at present before you fix the amount to be held in liquid gold.

2958 I should like to get an answer to this question from you, because it has been mentioned in the Press and elsewhere, I believe. It is said that the Secretary of State need never sell his bills below 1s 4d, that he has only got to sit tight and he will obtain 1s 4d whenever he likes, what is your view about that?—I think that would not be desirable at all. If he held out for 1s 4d, in the slack time of the year he might have to wait for a considerable time, whereas under the present system he reduces the amount when exchange is dull, and he can always feel the market. (*Mr Fraser*) He judges the market right through. (*Mr Toomey*) He reduces the weekly amount right through until he can find a market. By keeping the amount at 20 lakhs and so on, he can

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[Continued]

feel the pulse and eventually sell more as exchange goes up

2959 You had a discussion with Sir Shapurji a little while ago about the London and Indian money markets, do you suggest that the Indian money market is at all dependent upon the London money market?—In what way do you mean?

2960 Do the rates of discount vary one with the other?—No, not exactly

2961 They are independent?—They are independent of each other (Mr Fraser) They are mutually bound up as far as buying rates are concerned (Mr Toomey) But not as regards money It does not follow because the Bank of England rate may be high that the Indian rate will be high

2962 (Mr Gladstone) There would be a greater difference between a demand rate, of course, than between a four months' or six months' rate?—Yes

2963 (Sir Ernest Cable) You said this morning that it would be a desirable thing to increase the elasticity of the note currency in India, do you think that it is a desirable thing to get out as many notes as possible?—The idea would be to encourage the note issue (Mr Fraser) Do you mean to increase the circulation and to get the people to take notes where they now take gold or silver?

2964 Yes?—We think that everything that can possibly be done to popularise the note issue is a step in the right direction, because the moment the people accept notes as currency, as they do in all highly civilised and developed countries, then their troubles disappear, and you get the condition of a note circulation and a note currency well backed

2965 Do you think that the Government is as efficient in that respect as a central bank would be?—(Mr Toomey) More efficient

2966 Why would you suggest that? Why is it more efficient?—They are doing everything they possibly can to extend the note issue, and they have had a vast experience in running the department. What has added largely to the increase in the note issue of recent years has been the universalising of the smaller notes

2967 Would you say that the currency note in India is over protected?—No, I would not (Mr Fraser) Do you mean that there is too much cash and too little investment?

2968 Yes?—No I think that the position is carefully reviewed from time to time by the Government of India. They always consult, I think, the various authorities, the Chambers of Commerce, and the Presidency banks, before they increase the amount of the investments, and I think the amount at present is reasonable, it is 14 crores

2969 I was going to suggest that a central bank might develop the use of currency notes perhaps by re discounting hundis, that is, native bills, which the Government cannot do?—(Mr Toomey) It would be rather a risky thing to do for a State bank to discount hundis (Mr Fraser) It is a highly specialised business

2970 You said this morning, in respect of your up-country branches, you do not come into competition with the Presidency banks?—(Mr Toomey) Not to any extent

2971 Would you say—it is a point which is bound to arise—the same with regard to your operations in the Presidency towns?—We may do the same class of business as the Presidency banks, but there is room for all in these Presidency towns

2972 I know that argument, and, of course, that would be the argument that would be used against you with regard to the exchange market probably. That is just the point I wanted to know, whether you are competing or not?—We have a local business as well as our exchange business, we have to run one with the other

2973 You cannot suggest any means by which those hoards of gold and silver, which Mr Fraser has just been talking about, in the ryot class should be brought out?—No, there is no way we can suggest

2974 No sort of inducement would appeal to the agriculturist, I suppose?—No (Mr Fraser), We

have touched very briefly on the question of co operative credit, on which neither of us, I think, can speak with very much authority, except that the system, as we know it theoretically, rather appeals to us I think in course of time, if the Government of India pushed that, they might by that means get the native to bring out his money. It seems to be the only thing so far that has had any really beneficial results

2975 Knowing the native as we do, it is quite possible that, having a hoard in his village, he may still be borrowing at 40 per cent or 50 per cent from his bunna?—(Mr Toomey) He can afford to keep these hoards, and will not part with them

2976 (Sir Robert Chalmers) If I remember rightly, you said, as one would expect, that the interests of the exchange banks were bound up with the general interests of India?—Quite so

2977 And that the prosperity of India meant generally the prosperity of the exchange banks?—Yes, it means prosperity to us

2978 You are looking at this question generally therefore, on the basis of the prosperity of India?—Quite so

2979 I think a criticism has been advanced in some quarters as to the action of the Secretary of State in keeping his Gold Standard Reserve in this country, it has been urged, I think, that the Reserve is kept in this country in the interests not of India but of the London money market?—I have seen that advanced

2980 What do you say on that?—I say that London is the only market where the Gold Standard Reserve should be kept

2981 In the interests of—?—In the interests of India

2982 Because—?—Because if it ever has to be drawn upon the money will be required here

2983 It is here where it is wanted?—Yes, and it could be of no use in India

2984 It is kept here, therefore, in the interests of India?—Yes

2985 Do you attach any importance to the criticism that the money is kept here in the interests of the London money market?—No, I think that is entirely wrong

2986 Coming now to a detail, Sir Shapurji rather pressed you as to having 100 per cent of the Gold Standard Reserve in gold, as bankers you are not without experience as to what you would do with money, it is not your practice to keep 100 per cent in gold, is it?—No

2987 What do you do in practice? Do you not have in your front line, cash, then money at call, then short dated securities, and then investments?—Yes

2988 Do you think that would be the sort of line on which your experience would suggest that the Government of India should deal with it?—Quite so

2989 It is a mere question of expediency and of feeling the pulse of trade as to the proportion you would keep in gold?—Quite so

2990 You would not dream of keeping 100 per cent in gold?—I would not dream of keeping it all in gold, I think that would be too wasteful and extravagant

2991 (Mr Gillan) I am not quite clear on this question of making loans in India what your attitude is. You have said in your memorandum (page 537 paragraph 12) that you would favour Government lending money out of the balances in India, but at the same time I think you said, in answer to the Chairman, that the amounts which have been given were enough in recent years, and that one does not hear much complaint of a 7 per cent or 8 per cent rate?—Yes We know there has been a certain amount of agitation in India as to the Secretary of State lending money here, and not lending it in India, and though we see no reason why the Indian Government should not lend its surplus balances for the benefit of trade, we do not think any very large amount of money would be required. We suggest that the money should only be lent to the Presidency banks, and that any people wanting money on Government paper, Port trust bonds, and the like, should then go to the Presidency banks

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[Continued

2992 What I was not clear about was the importance you attach to this measure?—I do not attach very much importance to it

2993 About those very interesting currency figures\* which you gave us, you got an average, as I understand, which is to be weighted, but at present it looks something like 62 per cent in notes, 24 per cent in silver, and 14 per cent in gold?—That is so

2994 One should not be misled by percentages which are taken only from headquarter centres?—But these are large branches and small branches mixed up together

2995 You would not say that, as a matter of fact, taking the total circulation of currency in India, anything like two-thirds of it was in notes, would you?—No, I should not

2996 Mr Fraser, for instance, said the whole of the jute trade is financed with actual rupees, and practically the whole of the rice trade in Burma is financed with actual rupees?—Mostly in rupees (Mr Fraser) That is so far as the actual buying in the districts is concerned.

2997 That is what I meant You do not mean to imply that these statistics which you have got from your centres in any way reflect the composition of the total currency of India?—(Mr Toomey) No (Mr Fraser) They are certainly not meant to do so

2998 About what you said with reference to the gold mint, there is only one point I wish to put to you What one is trying to get is currency, is it not, and that in the main is silver currency, namely, rupees?—(Mr Toomey) Yes, the main currency of India is silver

2999 If you have got a time of bad harvests and so on, the currency for the time being is redundant?—Yes

3000 But suppose you have a prosperous season and there is a great demand for currency, then your exchange banks are bringing money into India from wherever you can get it, by Councils, or sovereigns from Australia?—In a prosperous time, yes

3001 From wherever it happens that that method of bringing money is cheapest?—Yes

3002 Might it not happen that the cheapest method of getting gold in order to get rupees was coming the bullion in India itself?—No We could not get at that, that would be no use to us We should have to remit out

3003 If you had a mint in Bombay?—?—We have a mint in Bombay

3004 If you take gold to the mint and get it coined into sovereigns, you could then take those gold coins to the Currency Office and get rupees?—(Mr Fraser) I do not follow that Are you assuming that we would import gold bullion, or that we would get the gold bullion that is hoarded by the people? Do you assume that the banks would import gold bullion and tender it to the mint?

3005 Possibly?—(Mr Toomey) And are you speaking of an adverse season?

3006 No, I am speaking of a good season?—(Mr Fraser) Why should we take gold bullion to the mint? If we did so, there would be a great delay If you take gold bullion to the mint here, you may have to wait a week, a fortnight, or a month, it might be six months possibly

3007 Then that might not on occasion be the cheaper method?—I should think as a rule it would not be the cheaper method, I should think as a rule it would not pay

3008 But it might occasionally?—It would be very exceptional, for instance, if by any chance, owing to the rates being favourable in Africa and various other conditions being favourable, you might possibly be able to divert South African mining gold to Bombay Many years ago when I was in Calcutta, I diverted a large lot of gold from Japan to Bombay, because in those days the Government took gold yen, but they have since found that it did not pay them, and they will only take sovereigns and half-sovereigns now

\* See question 2763, *ib. supra*, and Appendix XVIII, pp. 541-2

(Mr Toomey) In the ordinary way the only gold which the Indian mint could look forward to getting is the local gold produced in the country

3009 At the mines?—Yes

3010 What about the other bullion that is in the country, could you not get some of that?—No, the people would retain their gold and they would not send it to the mint. They can afford to keep their little bits of gold

3011 Is there not a lot always passing through the hands of these dealers in bullion and so on?—No We sell a large amount of bar gold in the course of the year, as we ship it every week These bars are hoarded, and they would remain hoarded The people would not take those bars to the mint There would be nothing to be gained by it They buy this bar gold, they do not want sovereigns, and they retain the bar gold

3012 What are all these dealers in bullion doing with it?—They will cut a 10 oz bar into half a dozen pieces, and they will sell that gold to the small people in these little pieces Those pieces are made into ornaments That gold would not go to the Indian mint

3013 Then it is not your opinion that in a favourable season there would be any amount of gold coming out that would be available for coinage in India?—No (Mr Fraser) Our experience is the reverse—that in a favourable season gold disappears, because the people are prosperous and are able to hoard more

3014 (Sir Robert Chalmers) Famine might bring it out?—It might, it has in the past

3015 (Mr Gillan) About the reserve, you say in your memorandum that you are not in favour of the retention of the silver branch, I just want to put in two reasons that were given us by Mr Abrahams for the retention of that branch He said for one thing it operates as an extra reserve against the necessity of coinage?—(Mr Toomey) I can understand that, in fact, it is an emergency reserve

3016 It is an emergency reserve, he said Secondly, he said, it is a useful method of obtaining transfers between England and India in the case in which the Treasury balances are insufficient, because, he said, the next method of making transfers in that case would naturally be the Currency Reserve, but that would have the effect of earmarking gold in England, and it might so happen that the market conditions were against that sort of operation I want to know what you think of those two reasons?—One is that it is acting as an emergency reserve?

3017 Yes?—You might have a certain amount of silver as an emergency reserve, but we say it ought not to be kept in the Gold Standard Reserve The Gold Standard Reserve should be in gold or gold securities If you want a reserve keep it somewhere, but do not keep it there. (Mr Fraser) It simply means that having these six crores in the Gold Standard Reserve in coined rupees, you have so much less in the currency reserve, and we argue that the proper place for the rupee is the Currency Notes Department and not the Gold Standard Reserve.

3018 How could you, as a matter of fact, decrease the possibility of holding gold in the currency reserve?—It does not matter much from that point of view When you are estimating your requirements, I assume the Government of India takes into account that they have so many rupees in this extra fund What is the object, then, of having them in that fund?—They might just as well be in the Paper Currency Department.

3019 Would not the amount of gold in the currency reserve be proportionately decreased if you had to hold six crores more of rupees in the currency reserve?—Not exactly, but take the two together At the present moment there are 17 crores in the currency reserve and six in the Gold Standard Reserve Do you want the six or do you not, if you do not want them, then 17 crores is enough.

3020 The arrangement is that we should start the busy season with 18 crores in the currency reserve and six crores extra in the Gold Standard Reserve?—Then start the season with 24 crores, and there is an end of it.

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[Continued]

3021 In the currency reserve?—Yes  
 3022 Is the amount of gold that you can hold in the currency reserve not reduced—that is what I am asking?—(Mr Toomey) You would have to reduce it (Mr Fraser) If you consider you require as much as 24 crores of rupees to start the busy season with

3023 You do not actually gain anything in gold, taking the two reserves together, do you?—(Mr Toomey) No (Mr Fraser) The gold in the Paper Currency Reserve is not earmarked, and, as I have said before, it has a tendency to slip away when it is wanted, but gold in the Gold Standard Reserve cannot slip away—it is there

3024 That I quite understand, and I have only one more point about that. The idea when the arrangements were last made about this Indian branch was that we should start the busy season with this distribution of the actual reserve, and that six crores of rupees in the Gold Standard Reserve during the busy season should be allowed to run out and be replaced by gold taken from the currency reserve, so that nominally by the end of the busy season those six crores might be converted into gold?—It would be a favourable opportunity to transfer it then to the Gold Standard Reserve

3025 What I put to you is that the presence of silver in the Gold Standard Reserve under that arrangement was confined to the busy season, and the probability is that by the time the slack season arrives, which is the time that you require gold, you have the gold there?—(Mr Toomey) But that six crores would stand in the Gold Standard Reserve for years

3026 I was speaking of an arrangement that was made recently with regard to this, I do not know whether that arrangement would in any way modify your objection to the system?—(Mr Fraser) I think not, because we feel that the Gold Standard Reserve should be in gold, and so held that it cannot possibly disappear as it would or might in India

3027 About the extent of the reserve, there is only one question I wish to ask. I think you said, Mr Toomey that the famine in 1907-8 was a small one?—(Mr Toomey) Yes

3028 On what grounds did you say that?—I should say rather that the requirements in connection with exchange homewards were comparatively small

3029 How do you judge of that?—Do you not speak of the famine of 1907-8 as comparatively small?

3030 I do not think that was the view that was taken by the Government of India, and that is why I am more particularly asking you about it. There was a complete failure of the rains in India and the area of the famine was very extensive, I think it covered the Punjab, the United Provinces, and the Central Provinces?—I made no point of it

3031 It is rather important, because this period has been given to us by Mr Abrahams as a crucial example of what we may require?—Of what our requirements might be in the way of gold?

3032 Yes, and that we should be guided by the experience of that season?—I think the Indian Government lost about eight millions in that period in the way of gold

3033 (Sir James Begbie) Out of the Gold Standard Reserve?—(Mr Fraser) They lost a great deal more in the way of actual gold in the country

3034 (Mr Keynes) 17 or 18 millions altogether?—(Mr Toomey) You cannot tell possibly how much would be required under similar circumstances in the future

3035 (Mr Gillan) How far do you say that is a good example for our guidance?—It depends upon the severity of the famine. One cannot tell what the Indian Government would lose in the way of gold, it is impossible to tell. If there was a famine in the second year, it might be the Indian Government would lose a very considerable amount of gold, but how much no one could tell

3036 (Sir Shapurji Broacha) You cannot buy gold in India except to export, can you? When we think it is cheap enough to buy, we buy it, but we only buy it to export, do we?—We do what we like with it

3037 You have very little money to buy gold with except for export?—There is no doubt if we did buy gold in India it would be for export

3038 And you would not be exporting it if you sent it to the mint, and if it always went at 1s 3½d, it certainly would not pay?—It certainly would not pay to buy gold and send to the Mint

The witnesses withdrew

Mr O T BARROW, C S I, called and examined

3039 (Chairman) You come before us as a representative of the Government of India, I think?—Yes

3040 Would you kindly tell me what your position is?—I am now retired, but I was for some time Accountant-General of Bombay, I was Comptroller-General for about four years, and I acted for a short time as Secretary in the Finance Department

3041 In recent years, the Indian total balances have reached very high figures. I believe?—That is so

3042 What has been the reason for that?—It has chiefly been due to the excess of net revenue over the estimates, but there was also a very large loan, I believe, taken in 1909-10 in advance of requirements—that is as I understand things—and the effect on the Indian estimates was rather intensified by estimating for a high balance at home

3043 To that extent the high balance was intentional?—It was to the extent of the home balance. I take it that the home balance was estimated above the normal, the home balance being about four millions, I think they estimated for over eight millions in 1911-2 and over six millions in 1912-3

3044 For what purpose did they do that?—The explanation is given in the memorandum on Indian balances (Cd 6619)

3045 And you do not wish to add anything to what is there said?—There are one or two points in it which I do not understand, but I am really not in a position to criticize it

3046 As regards the balances in India, do you think that they might be used with greater advantage to Indian trade?—Do you mean utilising them by loans?

3047 Yes?—I do not think it is very practicable to use the Treasury balances in that way, at least it is quite practicable to do it to a small extent, but to any very large extent it would be dangerous. You cannot always count upon them for one thing, and for another thing you cannot always make them available soon enough. Our balances are raised by the revenue collection, and the heavy receipts begin to come in as an ordinary rule in January. So you could not make your balances always immediately available. They are collected in a large number of sub-treasuries and places in the outlying provinces. It would be very difficult therefore to make all the balances available before the end of January anyhow. If the trade demand was very heavy and the bank rate rose very high in December and the early part of January, as it sometimes does, you would find it difficult to meet any large demand for a loan. After that, in February and March in normal years you could do so, but the point is that a year might not be normal and you might find yourself in difficulties. I think that is one of the main reasons against it, because trade would be depending upon an uncertain element. Otherwise I cannot see any objection to it, leaving out of question, I mean to say, such considerations as, for instance, its possible effect on Council bills. Leaving all that out of consideration, I think you could lend

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[Continued]

a portion of your Treasury balances, but I do not think that it ought to be done, because I do not think trade ought to get to rely upon it.

3048 What is the possible effect on Council bills to which you refer?—Some people think it would have no effect at all, and I myself doubt whether it would have any serious effect as regards the amount of Council bills to be brought out, but I can see that it might as regards the rate at which they were sold, because it is possible that if you gave a loan it might pay somebody to take advances on loan instead of bringing out transfers at a time of high rates, and therefore you might possibly get a lower rate for your Council bills later on.

3049 You might get a lower demand?—Not a lower net demand on the whole year, but a lower demand at a time of high rates. At present a great many remittances are made by means of telegraphic transfers, and ordinarily in the busy season the rate for telegraphic transfers is very high, I think about 1s 4½d. If you postponed taking Council bills until the demand was less and meanwhile took an advance, I can see that it might affect the rates at which Council bills were sold.

3050 Instead of getting an average rate as at present, high at one period of the year and low at another period, you would reduce your rate, you think, to the level of the times of low pressure?—I do not go so far as that, but I think it might have an effect in getting a less high rate. I know it is a difficult thing to say exactly what effect it would have, but I think that you might, by postponing the urgency of the demand, interfere to some extent with the rates you obtain. It seems to me that if you could postpone taking Council bills at the time of high rates until the Secretary of State was more or less obliged to sell, you would be able to get them for a lower figure. I may be wrong about that.

3051 Do you think that the Government of India could afford to keep lower balances than they have been doing of late in India?—No, I should not think so, on the contrary, it has been rather Government's policy to keep higher balances than heretofore. We found in the old days that we had great difficulties. We used to try to work to a minimum balance of about 8 crores or 8½ crores, and it was found to be difficult. We had to be making constant remittances, and altogether it was a troublesome business. It was agreed to increase gradually that minimum balance, and I think the figure now is something like 11 crores—I am not sure whether 11 crores or 12 crores is our minimum balance now at the time of greatest pressure at the end of November.

3052 On the whole you definitely prefer that the Government should not make loans from its balances?—I should prefer that it should not make loans from its Treasury balances.

3053 Would you make loans from any other sources?—There are two other sources. There is the Gold Standard Reserve, Indian branch, and there is the Paper Currency Reserve. The Gold Standard Reserve, Indian branch, might possibly be thought to offer a source for advances if your currency silver was so high, or the balance of silver in currency was so high, that there was no prospect of having to use the silver part of the Gold Standard Reserve during the busy season. It would be possible to advance from the Gold Standard Reserve, but it would not be advisable, because the very reason for which the Gold Standard Reserve is kept in India is to give the Secretary of State an alternative method of drawing Council bills, and if you once reduce the silver in the Gold Standard Reserve you deprive him of that advantage.

3054 Then you would eliminate the method of lending from the Treasury balances, and you would eliminate the proposal to lend from the Gold Standard Reserve?—Yes, I would, entirely.

3055 What do you say about lending from the Paper Currency Reserve?—I think with proper arrangements that is quite possible. Of course it is not practicable at present, in fact the law would not permit it as it stands at present, and also the way in which things are worked now would make it rather

difficult. At present our investment is a fixed figure laid down by the Act, and whenever we alter that fixed figure we have to alter the Act, and before we do so we consult the business and banking community. That I hold to be a fundamental mistake, I do not think it necessary, and I think we can substitute another plan for it which would enable us to make part of the paper currency balances available for the use of trade.

3056 Will you develop what is in your mind?—My idea is that we should take power once for all to invest a certain percentage of the circulation. You might invest, say, 40 per cent of the average gross circulation, or you might take it any way you like, either gross or net. Of course if you calculate upon the active circulation, you can afford to take a higher percentage than if you calculate upon the gross, but calculating it upon the gross circulation you may take, say, power to invest 40 per cent of the gross circulation, though you need not work up to that figure. You could then make provision in the Act that part of your investment should take the form of advances on temporary security. You could then keep sufficient in hand to advance. By that method of allowing us to invest up to a certain figure, we could always, even at the present moment, do it and still leave room for gold and silver. At present the objection to investing a large percentage of the currency reserve is that it would not leave enough room for gold and silver—at any rate, it would not have done so a few years ago.

3057 Leave enough room where?—You would have to leave a sufficient amount of silver to meet the wants of trade. At present that is actually fixed at 18 crores at the beginning of the busy season. Then you want a certain amount of gold for the public demand in India. We would also like to have a place in which we could put gold in London when we want to sell Councils otherwise than from the Treasury balances. We ordinarily sell Councils against our Treasury balances until we have reached the limit up to which we can afford to pay in India. If you want to sell more, there are only two methods of doing it—either by placing gold in the currency reserve in England or drawing against the Gold Standard Reserve branch in India, which is a very small thing, only six crores. So you will have to have room in your currency reserve for the gold and silver that is likely to be there. If you invest, say, 60 per cent of the gross circulation, which would be 36 crores, taking 60 crores as the present total circulation, you would only have 24 crores left, which would not be enough. If you invest 40 per cent of the present circulation of 60 crores, that would be 24 crores, leaving 36 for gold and silver, that is to say, 18 for silver and 18 for gold, but 12 millions sterling is rather a small amount of gold. If Government has power to vary its investments within the limit of 40 per cent, Government could certainly be trusted to see to it that there is enough room left for gold, and, as the circulation increased, there would be more and more room for gold and silver. That would be, roughly, my idea. Also it would be open to the Government to keep two crores of this amount, or whatever amount was considered necessary—three, if you like—in hand, for immediate advances.

3058 When you are speaking of investments, you are speaking, I take it, both of permanent investments and of temporary advances?—Quite so.

3059 To the extent to which you could afford permanently to invest, you would be losing interest, would you not, by reserving a portion of the money for temporary advances?—Yes, that is true.

3060 Because the temporary advances would only be taken during a small portion of the year?—That is so.

3061 To whom would you make these temporary advances?—That I could hardly say. Of course when you are dealing with the currency reserve, one is dealing with rather a ticklish thing. The whole purpose of the reserve is to ensure the encashability of notes. I should personally be opposed to advancing it to anybody except the Presidency banks.

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[Continued]

3062 What sort of security would you require from them?—I would hardly like to say I suppose that the security which we could take from them would be principally Government Stock It would have to be laid down what would be accepted

3063 Port bonds?—It might be even those

3064 (*Sir Robert Chalmers*) Are they guaranteed by Government?—Bombay Port bonds are not, nor are the Calcutta Port bonds, but the Bombay Improvement Trust bonds are

3065 A Port bond then would be a non Government security?—Yes I could hardly express an opinion as to what would be exactly the safe thing to take, but I presume that those could be taken

3066 (*Chairman*) Would you propose any other alterations in regard to the Paper Currency Reserve besides this general extension of the power to invest of which you have spoken?—With regard to the reserve, no I think the present arrangement by which a small portion in gold is kept at home is a good one As regards the Currency Act I think perhaps there might be further alterations At present we only pay notes at certain centres, that is to say, at the Currency offices, it is possible that you might extend the number of places at which they are encashable, and that might be an advantage Also you might perhaps increase the value of the notes you pay, for instance, we used only to pay on 10 rupee notes, but now we have gone up to 50-rupee and 100-rupee notes, I think If you increase the number of places at which you pay them, which I think would be a benefit—I think the number might be extended very gradually—that would mean keeping a larger coin reserve

3067 If you wanted to extend the number of places at which notes could be encashed, who would act as the agents for the Government of India in those places?—It would be done at certain main centres of the Government treasuries

3068 You were not contemplating using the banks then?—No, except so far as they are the custodians of the Government treasuries at those places

3069 The use of notes has been very much on the increase, has it not?—Yes, very much, and that has principally been the case since we extended their convertibility

3070 So that possibly if you could still further extend their convertibility, you might still further extend their use and popularity?—Yes, I think so

3071 You think that is a desirable thing to do?—Undoubtedly

3072 You do not belong to the school which thinks that it is desirable to get as much gold into circulation as possible?—No, I do not, I think it is more important to circulate paper

3073 You regard gold as a wasteful form of circulation?—That is so

3074 Do you attach much importance to the amount of gold in circulation as an aid to the Gold Standard Reserve for the maintenance of exchange in the case of a crisis?—No, I do not, not to the gold in circulation

3075 Do you think that the gold in hoards would give much support to exchange in a crisis?—I should not think so

3076 As regards the location of the Paper Currency Reserve, are you satisfied with its present distribution?—Yes

3077 Are you satisfied with its composition?—Yes, except that there is the general question of how far you can prevent the gold in the Paper Currency Reserve accumulating, and whether its accumulation is a bad thing or not At present we have no means, and I do not think we ever will have any means, of stopping this accumulation Even if the plan, which I was outlining, of investing a percentage instead of a fixed figure, were adopted, that would not prevent the accumulation of gold It would still go on, and it must go on, apparently There is a tendency in some years for the gold that comes into the country to stick in the Paper Currency Reserve and not go out During the last few years a large portion which has come in has stuck in the Paper Currency Reserve, and, of course, the lowness of our investment is

the reason why the amount is bigger than it otherwise would be It is, I think, desirable to try to check the absorption of gold I know some people think not, but I am inclined to think that, on the whole, it is desirable to check the excessive importation of gold into India Still, that accumulation of gold, if it is an evil, seems to be an evil which we cannot prevent, whatever we do with the Paper Currency Reserve, because it is no use coining silver before it is necessary

3078 I think a good deal of silver is kept in the Gold Standard Reserve whilst gold is accumulating in the Paper Currency Reserve, would it not seem natural that an exchange should be made, and that the gold should be put into the Gold Standard Reserve and the silver be received in exchange by the Paper Currency Reserve?—Yes, it would if it were not necessary to keep the silver in the Gold Standard Reserve for another reason The reason is that we want to have an alternative method for the Secretary of State to draw against I do not see how that reason can be got over at present, eventually, I think, it can be got over, but not at present

3079 I do not quite follow that?—It all depends upon the policy we follow as regards Council bills If we are going to continue the policy, as I imagine will be done, of drawing Council bills beyond the amount of our own home charges, then as soon as the Treasury balances in India cannot suffice to buy Council bills, you must draw against the Paper Currency Reserve—there is no other way It is sometimes inconvenient to do so, because you do not want to take gold off the London market When that occurs, the only means of drawing you have got is against the Gold Standard Reserve, whereby, when you receive the money for Council bills here, you can immediately invest it, and so the gold does not go off the market

3080 Does that not come back to the restrictions which are at present placed upon the use of the Paper Currency Reserve?—Yes If it was safe to make temporary investments of the Paper Currency Reserve and we had a percentage, as I have suggested within which we could work, I think you might do away with the Indian branch of the Gold Standard Reserve because you could equally invest your Paper Currency Reserve My doubt is whether you will find sufficient securities of a suitable character in the London market—I do not know about that If you do find sufficient securities of a suitable character in the London market, you could then place your temporary currency investments Of course they are on a different footing to the Gold Standard Reserve investments What might be safe for the Gold Standard Reserve might perhaps, be objected to from the point of view of the Paper Currency Reserve I do not know, it is only my idea that there might be a distinction made

3081 What is the distinction which you think might be drawn?—Only because of the nature of the Paper Currency Reserve investment It is true that it is a reserve against our notes, and it is what the public look to for the repayment of their notes, we are in a fiduciary position there But in the case of the Gold Standard Reserve we really can do what we like with it, it is only a matter of public opinion and we could invest it even in rubber shares if we liked We should not like to do that with the Paper Currency Reserve That is my meaning broadly

3082 The obligation of the Paper Currency Reserve is to provide rupees for all notes that are presented for payment?—Exactly so

3083 Must it not hold rupees rather than gold?—We are not obliged to pay notes in rupees, we can pay them in gold if we like, gold now being legal tender Of course, we should not think of taking such a step, except under some emergency, but there is nothing to prevent our doing it

3084 If the public present those notes in large quantities exceptional quantities, let us say, is the demand likely to be for gold or for rupees?—The demand is likely to be for rupees



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3085. And what you would have in your reserve to meet that demand for rupees is gold?—Not quite, because of course anything like a demand of that sort, when it becomes excessive, is foreseen, and we can always convert our gold into silver sufficiently quickly for that. That is why we keep a certain balance of silver to enable us to do so.

3086. Should I be right in saying that when the crisis comes what will be wanted is rupees and not gold?—Yes.

3087. And that the gold is only valuable because it can command rupees?—Yes.

3088. It does not seem to you to be, under those circumstances, desirable to have the rupees there apparently?—Do you mean to coin in advance of the actual demand?

3089. Instead of holding gold in the Paper Currency Reserve, to hold your reserve in rupees?—But gold rushes into the reserve. Do you mean that we should not accumulate, and that as soon as we have gold we should send it back again and coin rupees?

3090. I meant to suggest that you should exchange the gold which came into the Paper Currency Reserve for the rupees which were in the Indian branch of the Gold Standard Reserve?—That is after all only a very small proportion, that is only 6 crores, and as I explained before we cannot do that unless we have some alternative method for drawing Council bills.

3091. Are you in favour of the opening of a mint in India for the coinage of gold?—For the coinage of sovereigns or of other gold? There is some distinction between the two. For the coinage of sovereigns I should think it was quite unnecessary, and I do not quite see how it is going to be done. The amount of gold that would come from the Indian supply is so small that it would not be worth while doing it merely for that I think, and to import gold to coin it in India seems to me rather absurd if you coin it into sovereigns. Of course any other class of coin that you are going to introduce would stand on a rather different footing, because, although we can get sovereigns enough when we want them from Australia or England, we cannot get the other coins, and there fore if you are going to have the other coins I think the mint for coining them should be in India. That would be the most convenient place probably.

3092. Do you see any advantage in having a gold rupee coinage?—No. A great many people think that the 15-rupee unit, the present sovereign, is too high to meet the general native taste, but that is only a conjecture. I think myself that it is mere conjecture as to how far they would take 10-rupee pieces more freely than they do sovereigns. Personally I should rather doubt it, but it might be tried. There are certain objections, of course, to coining gold at all in India.

3093. Would there be any advantage in trying it?—I should call it rather a disadvantage myself, because it seems to me that it is not necessary in a way to force a taste for gold on the Indian public. I cannot help thinking that if you did do so you would increase the gold drain on Europe, if that is considered a bad thing. If you introduce gold into the currency, I think it is clear that you would require more gold altogether in India.

3094. Of the gold that you might introduce into the currency how much, do you suppose, would remain in currency and how much would take the form of ornaments or go into hoards?—I think it is almost impossible to say, that is merely conjecture again. The natives might like the 10 rupee piece to use as currency, and again they might prefer it for the purpose of hoards, no one knows what they would do. Some people think that they would prefer a 10 rupee piece merely for hoarding purposes rather than the sovereign, because it would be a lower unit. If they did and if it increased hoarding, you would again get a further drain upon England. Whether they did or did not, if it went into the country and stayed there it would mean a further drain of gold from England. It must mean a further drain, whichever it is. Of course it might have no effect, as they may not exhibit any preference for a 10-rupee piece.

3095. I will not pursue the effect on England, but suppose it did mean a further drain on gold from England, would you say that that must be the governing consideration for India?—Yes, I think so. My own feeling is that anything which lessens the world's supply is bad for India, that is to say, if you encourage the gold to go into hoards.

3096. Anything which lessens the amount circulating, you mean?—Anything which lessens the amount of gold available for exchange. I think that does affect Indian trade as it does affect every class of trade, and I cannot help thinking that it affects India as a debtor country perhaps more than other places.

3097. Are you right in describing India on the whole as a debtor country?—India is a debtor country in a way, that is to say, we have an outside loan on which we have to pay interest. Any scarcity of gold seems to me to affect, and must affect, us deleteriously. Also in the world's market any want of gold does affect the demand for produce, and therefore must badly affect India. So there seem to be two ways in which it affects India badly.

3098. I turn for the moment to the Gold Standard Reserve, do you criticise the present location of that reserve?—No, I think it is right.

3099. You hold it is right that the major portion should be kept in London?—I think undoubtedly so.

3100. Will you give me your reason?—It is no use, really, in India. You want the gold at home when a crisis comes. If you have it in India, you would have to send it home.

3101. Would you retain a small proportion of it in India?—Not in gold.

3102. Would you in silver?—In silver, yes. Even much of the gold in the Paper Currency Reserve I would keep here. Because in times of adverse trade we use the Paper Currency Reserve gold at home as well as the Gold Standard Reserve gold, so that the two things are rather interlocked. I think they are both more useful in England, and I also think that actual gold in England would be more useful than securities.

3103. Would you think it necessary that the whole of the gold reserves should be kept in actual gold?—No, I do not think it is necessary, but I think if it could have been done without other objections it would be a good thing.

3104. On striking a balance between advantage and disadvantage, what do you say?—I think the present system is best, but I think there was a good deal to be said for what the Government of India said on that point. They considered gold was more useful than securities in a time of crisis, and so it is because gold then goes into the market.

3105. I gather that you would depreciate holding any part of the gold reserve in long-dated securities?—Yes, I would.

3106. Or in any securities with no date of redemption?—Yes, I would.

3107. Would you fix any proportion which ought to be held of actual gold, or any sum?—I would not. I think it is a difficult thing, but I think that the present arrangement of about 5 millions is a very reasonable one.

3108. On the condition that the rest is held in short-dated securities?—I think that is the preferable plan, certainly.

3109. (Sir Robert Chalmers) Would you wish to qualify your remark about the debtor country a little further? India has debts, but on the whole she is a creditor country, is she not?—Yes, that is so. I was thinking more of the fact that we have an external loan than of anything else.

3110. You have got to pay 20 millions in this country, that was in your mind?—That was in my mind, and the interest on the loan. Of course the more you appreciate the gold, as I suppose you would call it, the worse it is for India, because then India has practically to pay more in interest charges on her debt.

3111. On the whole, there is a balance of trade on the average of years in favour of India?—Yes.

3112. That is an essential fact?—Yes.

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3113 Without that India would be in a very painful position?—Quite so

3114 You are speaking, therefore, in reference to a part of India's position and not to the whole when you speak of her as a debtor country?—Yes that is so

3115 You said it is an elementary question, but I should like it, if you would, to be amplified a little further—that you thought the gold in the Gold Standard Reserve should be kept in England?—That is so

3116 Would you mind amplifying your view about that somewhat?—When an adverse trade balance occurs people wish to pay silver in India and receive gold in England.

3117 Because the settlement is in gold at home?—Yes

3118 This is the place where they have to make their payments?—Yes

3119 And consequently you keep the gold here?—Yes

3120 Would you attach any importance to the view which I believe is held in some quarters that it would be a fortifying of the position to keep the gold in India in whole or in part?—I cannot see how it could be. On the contrary, my own impression is that there is a great deal to be said for the view that even the paper currency gold in India is of no use there at all, and that when a crisis occurs we should send it all home and refuse payment of gold in India altogether. That view has been taken, and I do not think it is altogether wrong, but I do not know how far public sentiment would stand it.

3121 Have you considered at all the question whether it would be desirable, with a view to people's opinions and feelings, to have any statutory sanction governing the Gold Standard Reserve?—No, I have not considered the point.

3122 There is, of course, with the Paper Currency Reserve a special statutory sanction?—Yes

3123 But you have not considered the point, you say?—No, I do not think I have.

3124 Coming now to that suggestion of yours about a certain amount of the money in the Paper Currency Reserve being made available for purposes of advances to trade in India at certain seasons, the fiduciary portion of the Paper Currency Reserve is in certain securities, is it not?—Yes

3125 Definite securities, Government of India securities?—Yes, the Indian portion.

3126 If you were to take power, in accordance with what I understood to be your scheme, to lend, we will say, to the Presidency banks a portion of what happened to be in cash, but which you regard as being an investment portion, you would require the same type of securities to be deposited by the Presidency banks, I take it?—Yes, that is so.

3127 That is to say, Government securities?—That was my idea.

3128 Let us see what would be the practical effect of your scheme. You would have power to invest up to a certain figure?—Yes

3129 But you would not invest up to the hilt?—That is so.

3130 You would keep a little sum which you might call  $x$  for immediate use uninvested and remaining as a surplus, which would be a superfluous amount of cash?—That is so.

3131 You do that, keeping it in cash without earning interest, for the major portion of the year with a view to financing trade through part of the year?—Yes, that is true.

3132 Therefore, looked at merely as an engine of profit and loss to the Paper Currency Reserve, it would mean this, would it not, that you would be earning no interest for the best part of the year and you would be earning interest for a portion only of the year?—Yes

3133 So on the whole you would lose in interest?—That is true, but if you will allow me to say so, there is no alternative. What I mean is that you lose now, and under any system you must lose. I am trying to make that loss as little harmful as possible by giving the trade the benefit of it. Whatever system is adopted for the investment of the currency reserve,

I should hold there must always be a balance uninvested which could not safely be invested. It is so under the present system, and if you fix a percentage it must be so, because you must guard yourself by being a little below what would be the safe percentage, although you would be holding an amount which you could invest you are doing so now, and you will do so, I should think, under any system.

3134 But you would be doing it a little further?—You would be doing it with your eyes open—I do not think it would be more.

3135 (Chairman) You would fix an amount which it is safe to invest?—Yes

3136 I understand you to say, and I quite agree with you, that that amount would have to be fixed at something within the limit of safety?—Yes it would.

3137 You have two alternatives before you. Having fixed that sum  $x$  as being capable of investment at a particular period of the year, you may invest it for three months or you may invest it for twelve?—Yes

3138 I understand your suggestion to be that it should be invested for three months for the benefit of trade?—Yes

3139 Instead of for 12 months which would be to the greater benefit of the fund?—Yes. Of course it depends on the light in which you look at it. I look upon it that the percentage which we shall fix for the investment shall be high enough but not too high. If you fix that percentage you cannot work up to it every year, as it would not be safe. Say you fixed 40 per cent of the average circulation of the previous three years, well, the next year you again change that to 40 per cent of the average circulation of the then previous three years, and supposing that the circulation of the last day of the year is a great deal higher than the average of the previous three years then you will really have got more than 40 per cent of your circulation uninvested.

3140 I think you do not quite see the point I was trying to put. Whatever the sum which you fix as being safe to invest, is it not a necessary part of your proposal that a portion of it should be invested only during the busy months of the year when trade requires assistance?—Yes

3141 Whereas, if it is safe to invest it, you would have the opportunity of investing it for the whole year?—I quite see the point, but it seems to me that you could invest temporarily even beyond what it is advisable to invest permanently.

3142 (Sir Robert Chalmers) The Paper Currency Reserve is, as you said, fiduciary?—Yes

3143 And the interests of the Paper Currency Commissioners, are they, or Board—of the authority regulating that reserve—is to safeguard their notes?—Yes

3144 That and that only?—That is so

3145 So far therefore as the object under your scheme is to lend money for the financing of trade it is, would you agree, to some extent a departure from the purely fiduciary position of looking after the interests of the notes?—Yes that is so, but of course we already use the Paper Currency Reserve in other ways than merely securing the encashment of the notes, that is to say, we do use it as a means of helping trade in half a dozen different ways. As long as there is no interference with the primary object, I do not see why we should not do it. There is no interference with the primary object of the reserve which is the repayment of notes, if we give, say, a transfer from one place to another through the Paper Currency Reserve as we often do that is, if we give banks and merchants the option of paying a certain sum into the reserve in one place and taking it out at another.

3146 That is machinery, is it not?—It is a part of the business with the banks. We do not want it done for our own purposes, but we do it to assist them. We do not particularly want the currency funds moved from one place to another at the time we allow it, but we do allow it because we can allow it without inconvenience and for the purpose of helping trade. In the same way when we sell Council bills against currency reserves we are using the currency reserves really as a

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means to assist trade, because it does not interfere with the safety of the issue, and it has no effect upon that one way or the other—therefore we allow it. Of course, if this scheme of allowing loans were in any way to affect the safety of the issue, I should say, Do not do it, but if it does not affect the safety of the issue, I see no harm in taking steps which would make this currency reserve useful instead of useless, that does not seem to me to be objectionable.

3147 So far as you lose sight of its fiduciary interest, to that extent you are departing from your position as a trustee having in view purely the interests of the note issue, and you are acting as a general philanthropist for trade?—As far as we lose interest that does not affect the Paper Currency Reserve, because the interest is not credited to the Paper Currency Reserve but to the Treasury.

3148 The Paper Currency Reserve of India was modelled on the issue department of the Bank of England, originally and it still retains a general similarity, I believe?—Yes.

3149 The Bank of England does not advance money from the issue department, does it?—No.

3150 To that extent, therefore, your proposal would be a departure from the parent system?—It is, undoubtedly.

3151 Have you considered whether it would be possible to put the Gold Standard Reserve under, perhaps, the same body as the Currency Commissioners?—The currency is not under a Board of Commissioners. I do not remember the wording of the Paper Currency Act, there is a Head Commissioner of Paper Currency, but there is no board, or anything of that sort.

3152 There is an authority, could that same authority also be in charge of the Gold Standard Reserve?—The two things are rather different, are they not? I do not exactly follow you.

3153 They are interlocked to a great extent in maintaining the gold standard, are they not?—Only because we make use of the Paper Currency Reserve for a purpose for which it was not created. The Paper Currency Reserve has got nothing to do with maintaining the gold standard, but we make use of it, just as I said we might make use of it for trade, for that, though it has got nothing whatever to do with that.

3154 (Sir Ernest Cable) With regard to the criticisms which have just been passed upon lending money to trade from the currency reserve, of course the question of interest largely enters into the calculation, supposing, for instance, you were to lend for six months at 7 per cent. you would suffer no loss of interest?—Not if you could lend for six months at 7 per cent, but I do not suppose you could do anything of the sort.

3155 Still you might lend at a higher rate than 3½ per cent?—Undoubtedly.

3156 So the question of interest might not be such a very large item?—It might not be serious. That would depend on whether the trade took it. You must remember that in many years they might not touch it, and you might certainly have an infructuous balance. I think under any system we would always have some infructuous balance.

3157 Which you have now, you say?—Which we have now.

3158 I think you drew a distinction just now, in answering the Chairman's questions, between the purposes of the currency reserve and the purposes of the Gold Standard Reserve, which were quite distinct?—Yes. I say yes, but we really need not have a Gold Standard Reserve at all, though we must have a Paper Currency Reserve. I think the two things are rather different. I think the Paper Currency Reserve ought to be managed upon a stricter footing.

3159 Of course the object of the Paper Currency Reserve is to protect the note issue?—Yes.

3160 And the object of the Gold Standard Reserve is to protect the rupees?—That is so.

3161 Would the two together, speaking broadly answer one and the same purpose, namely, to protect the entire currency?—I look upon them as rather

different. For one thing, we have a note issue which we promise to pay. You may say we have issued a promise to pay the rupees, but we have not done so definitely—we will do so of course, but we do not pledge ourselves that we will pay the rupees.

3162 I was only leading up to this question, whether it would not simplify matters generally if both reserves were thrown together?—It would, and it could be done, but under present circumstances it is impossible because our note circulation is not large enough. It is quite true that the Paper Currency Reserve and the Gold Standard Reserve could be amalgamated and the whole thing worked with the Paper Currency Reserve, but not at present, because our circulation is not big enough.

3163 Do you mean your note circulation?—The note circulation is not big enough to enable us to hold both sufficient securities and sufficient gold. You must have sufficient securities plus sufficient gold to maintain your rupee standard, but we have not got enough. It is a simple matter looked at in view of the figures, and if you take the figures you will see we have not got enough. If we had enough it could be done, and I think some day it will be done.

3164 It is quite inconceivable, is it not, that there should be a run on the treasuries to change notes, because the bulk of the circulation is in 10-rupee notes and 5 rupee notes, which are scattered all over a large continent?—Yes.

3165 Therefore one cannot conceive an inconvenient amount of these notes being presented?—I think you can conceive of an inconvenient amount being presented. I think you will find that in some years the circulation has very largely fallen after times of famine. I think in 1897 and 1898 there was a very large fall in the circulation. It only amounted to a few crores, not to 50 per cent, or anything of the sort, still it was rather a large fall, I think it was from about 30 crores to about 23 crores.

3166 (Mr Gillan) Then you might have a political crisis in which the security of the Government was affected?—Yes, you might. Falls in the circulation have been, you might call them, serious, but not, of course, anything like what would be provided for outside the investment.

3167 (Mr Gladstone) I think you said that the Treasury balances, which used to amount to about 8 crores, are now 11 or 12 crores?—Yes, about 11 crores. That is, of course, at the minimum time of the year.

3168 Do you think that the very large number of treasuries established up country are necessary now?—I have never thought about it, but I should think they were quite necessary.

3169 You have the railway and telegraphic facilities greatly increased, do you think that full advantage has been taken of those with a view to economising the balances and using them to the fullest extent?—Do you mean by reducing the number of treasuries?

3170 And the balances, by being able to move them more rapidly backwards and forwards to where they are required?—Even now we do not move the balances except as we require actual coin, and that is a very small amount. However many railways you have got, whatever the railway communication is, you would not do away with the frequency of remittances merely because you could send it by rail instead of by road, nor would the expense be much less.

3171 It would be much more rapid, and much more economical and much safer, would it not?—It would be much more rapid, certainly, but I am not sure about the other things. I suppose it would be more economical but I have not thought about it.

3172 And safer, there would be less risk?—Yes. At the same time you must remember that the number of transactions tends to grow yearly. What was sufficient for our treasuries 10 or 15 years ago is no longer sufficient, because the number of transactions is multiplied and the expenditure is greater. You require larger balances for that reason, which might neutralise the effect of your increasing railways, and so on. I do not say that our balances are too low or too high, but at the time when they were raised from about 8½ crores to about 11 crores, it was rather care-

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fully thought over as to exactly what increase was desirable. I cannot give you the facts now because I have forgotten them.

3173 Was it gone into with a full knowledge of the different conditions that prevail now as compared with 20 or 30 years ago?—I think what was taken into consideration was not so much the altered conditions as what we found an actual practice was the trouble. We found it troublesome and expensive to be constantly moving, and I do not think we compared what the conditions and the means of transit are now with what they were then. What we principally took into consideration—I think it was about 1905 or 1906 that the increase was made—was the amount of trouble we had in moving funds, and the amount of care and trouble, and the number of telegrams, and so on, that the Comptroller-General and his assistants had to deal with. We found it was troublesome with such a small balance because funds were constantly wanted in a place where money was not available. We did not take the greater facilities of remittance into consideration as compared with what they had been 20 years ago, but what the trouble was that we were finding at the time.

3174 Do you not think if those facilities were taken into account, and also the extension of telegraphs and so on, that much more frequent returns might be made to the central authority, and that that would lead to the economising of its balances which are still dealt with in watertight compartments without relation one to another, and in connection with which, therefore, there may be a considerable waste?—There might be, but that is not so. We already consider that we take all the advantage that we can of the means of transit and communication, and notwithstanding that, we found that it gave us a great deal of trouble and expense, and we thought we would lessen that by increasing the balance. We were quite aware at the time it was done that increasing it meant paying practically so much interest.

3175 Would it be possible to have a statement of some of the representative treasuries, small and great, showing the money going in and out, say for a week or a month? I do not know how the other members of the Commission stand, but I have not the slightest idea what goes on at these treasuries. It is a matter of negotiation now, is it not, between the Government and the Presidency banks very often as to whether or not the banks will establish a branch and so enable a treasury to be abolished?—Yes.

3176 Do you not think that the banks would be able to work more economically than the treasuries by combining banking with Treasury business?—Wherever it is possible for the banks to open branches they already do so. I do not quite see how that could be done to a greater extent.

3177 My experience is that the terms are not considered good enough often, and that the banks refuse?—I do not remember any case of a bank refusing because the terms were not considered good enough. I can remember cases of banks refusing because there was not enough business, and that is the consideration, I imagine, that principally operates with the banks when they are asked to open a new branch.

3178 Of course, that difficulty might be met by giving them, as I think is often done, some special terms for that particular branch?—Yes. We have given them minimum balances in certain cases.

3179 (Mr Keynes) Sir Robert asked you one question suggesting that your plan of temporary loans from the paper currency, though it might be useful to trade, would be made at the expense of the interest earned. I want to pursue that point a little. I understand your view is that from time to time you can invest temporarily more than you can safely invest permanently?—I would hardly say that, but I think you can invest temporarily more than you would pledge yourself to invest permanently.

3180 More than it would be wise to invest permanently?—Not exactly more than it would be wise to invest permanently, because I take the view that the percentage might be very much larger than anything

I have suggested with perfect safety, but I am doubtful whether we could take the step of actually publishing to the world that we were going to invest, say, 75 per cent of our reserve, and I think Government would hardly care to face public opinion to such an extent. I personally think it would be quite safe to invest 60 or 70 per cent of our reserve, but I do not think we should go so far.

3181 But you think that objection does not apply to temporary investment?—I think the objection does not apply to a temporary investment. My own view is that it does not make any difference whether you work to a percentage of 40 per cent, and allow the Government to vary its investments within that for temporary purposes, or whether you provide for the fact of temporary advances in addition to that.

3182 If you are investing temporarily money against the permanent investment of which there is no objection, Sir Robert Chalmers was obviously right?—Yes.

3183 But if you can invest temporarily money against the permanent investment of which there is some objection, of whatever kind, then perhaps there is an answer to his point?—I do not say that there is quite a satisfactory answer, and I do not pretend to give an entirely satisfactory answer. What Sir Robert Chalmers said—and my own view is that it is so, but it is my own personal opinion—was that we could safely invest temporarily, because it is more easy, for one thing, to withdraw a temporary investment than a permanent investment, and for another, you want to have some power of varying your investment within the limit which I have fixed as the minimum. One instance of that is this: you have an average circulation for three years, say, of 62 crores—I will give you a concrete instance, that is the present state of facts. That gives you an investment of 24.80 at 40 per cent, suppose at the end of next year the circulation is found to be only 56 crores owing to a famine having occurred, or suppose it is only 48 crores owing to a famine having occurred, which is a quite possible event, then you will have got invested about 50 per cent of your currency reserve, which a great many people would say is an excessive amount. Therefore you would have to have a proviso in your Act that if the investment exceeded a certain percentage—and in fact this was part of my proposal—of the circulation on the last day of the immediate preceding year, that amount of the investment should be withdrawn.

3184 You could withdraw it then more easily than if it were permanent?—That is so.

3185 I would like to put to you another reason in favour of a temporary investment—when a good season is ensured, reserves which were not superfluous so long as the nature of the season was doubtful become temporarily superfluous?—Yes.

3186 Therefore, if the Government keep their funds intact until a good season is assured and lend them on terms which would bring all that money back again by the end of the season, they could do that without running any appreciable risk of being caught short of reserves, whereas they could not have done that permanently, because a bad season might have overtaken them, when they would want the reserves. Would you agree to that?—I am not quite sure that I follow that.

3187 Say that in November the character of the season was obvious, if you have funds then in hand to lend, well and good, you can be sure of the money coming back, but it would be very rash to have lent in August before you were certain how the season would turn out?—Yes, that is so.

3188 In those circumstances the Government could lend with the least risk to itself?—Yes, that is so.

3189 And at the same time it would be lending at a moment when funds were most useful to trade?—Yes, that is so.

3190 Would that be in your mind an additional reason for temporary investments?—Yes, I agree with you.

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[Continued]

3191 But that would not apply at all to permanent investments?—That is so, I agree

3192 Do your proposals for the investment of the Paper Currency Funds apply to temporary investment in London as well as in India?—It was only in India that I was thinking of investment

3193 You were not thinking of lending in London against Government securities?—Well, yes, I was

3194 Both in India and in London?—Yes, both. What I was thinking of with reference to India was entirely as regards advances. I was thinking that we might also invest part of our currency funds not in permanent investments at all, for the reason I have just given to you, the facility of varying within the limit—

3195 In Treasury bills, for example?—Quite so. The two things are separate in my mind. I was thinking separately of advances made to the Presidency banks and of the possibility of investing some of our reserve here at home in temporary securities instead of permanent

3196 They were also separate in my mind. Now I want to go to the point of the investments in London. If that were done, would there then be any reason against the suggestion made by the Chairman of abolishing the silver branch of the Gold Standard Reserve and taking all that into the Paper Currency and putting gold into the Gold Standard Reserve?—I agree to that

3197 Would there be any objection to it?—I think not, and I anticipated that that would be done when we once got a high percentage and a really high circulation. The only question is whether at present it can be done. I have not examined into it. It is a question of figures. It depends on how much you can temporarily invest, does it not?

3198 Is it your opinion that the silver branch of the Gold Standard Reserve only exists, because the Secretary of State is not free to invest the Paper Currency Reserves temporarily?—It comes to that

3199 That is another advantage, therefore, in having this power of temporary investment?—Undoubtedly. That was one of the advantages I thought of

3200 It is simply because the Secretary of State cannot invest the currency money temporarily that it is necessary to hold silver in India separate from the paper currency silver?—That is so

3201 In recent years by the universalisation of a number of notes the old circle system has been, in effect, largely abolished?—Yes

3202 In your opinion is there any reason why the circle system should not be done away with altogether now?—I do not see why we should do it with reference to the very high notes like the 10,000 rupee notes

3203 What would be the disadvantage?—They are not notes that pass from hand to hand. We have done it in the other cases for the convenience of the public, but if you include 10,000 rupee notes, that would merely mean paying for the traders remittances, and in those cases the traders should pay the exchange. In Europe if you want to send money from one country to another you have got to pay the difference of exchange, meaning the cost of carriage, as I understand it—I do not know that I can explain the matter very well, but it should be the same in India. The Government ought not to take any risk of having to pay the cost of any remittance for the sake of trade, and there is no reason why merchants should not pay it themselves. If you universalise 10,000-rupee notes you are, with your eyes open, saying, we will pay all your remittance charges for you if you happen to use those notes. We took the risk in the case of the smaller notes because we considered the advantages to the ordinary holders, the small people, were so great as to overcome any objection to Government having to pay remittance charges, but it would not be so in the case of 10,000 rupee notes

3204 Do you think that now the 100-rupee note is a universal legal tender it is not used for remittance?—I do not say that, but I think the advantages would be greater than any risk we might have to pay for. I am not sure in actual practice whether we have had to pay anything, because I have not been in India

lately. The idea was "that whatever risk was run, it was worth it, but it would not be worth it in the case of notes which would be used purely for remittances and never in hand-to-hand transactions"

3205 You would admit, I take it, that the circle system in the past undoubtedly hindered the popularity of notes?—Yes, it did

3206 And the people will probably be rather slow to understand that that reason has largely disappeared?—Yes

3207 If you entirely abolished even the name "circles" it might help to make it clear to the people?—Yes, it might do so

3208 I am suggesting that it would not really make much practical difference, because if anybody wants to use notes for remittance they can already use 100-rupee notes, and the difference between using ten 100-rupee notes and a 1,000-rupee note is not very great, is it?—I think it is very great. I am not sure—I think Sir James Begbie could tell you that better than I can—but I should think that 10,000-rupee notes would be used practically for payments between bankers, and only for that class of payments. I should think the Government would certainly lose a good deal if they were universalised, not only in the cost of remittances at present, but we get a good deal of premium from allowing funds to be transferred and we should lose the whole of that. Your idea, I take it, is that simply the name of the thing would encourage the circulation and therefore we ought to bear the cost for that reason

3209 The abolition of circles would simplify the system, and the cost would not be very great?—I agree there is a good deal to be said for that view, but I would not do it

3210 (Mr Gillan) Do you suppose that the ordinary person knows anything whatever about our circle system? There is nothing on a universal note, is there, which shows that it belongs to a particular circle except the letter?—That is so, but he does know about the circle system, because he has grown up in the knowledge—everybody has nowadays

3211 The ordinary person who is dealing with small notes?—Yes, he knows that he could not formerly have got a Bombay note cashed in Calcutta. I think the system is generally known

3212 (Mr Keynes) If you could say to people that notes were legal tender everywhere, if the statement could be put into a simple form, would that not do something to clear away the sort of doubt that remains as a legacy of the old system?—I rather doubt whether it would have any great effect. I do not think the wording of the Act would reach the public. I think it is the actual practical thing that they look at most. They know that they can get a Calcutta 100-rupee note changed in Bombay now, or they gradually acquire the knowledge that they can, and I should not think the native Indian people would think of what the actual wording of the Act was, and that it was only in the case of the notes that they themselves used that they would learn that they could do it, and that they would not acquire the knowledge in the case of the very high value notes. It does not seem to me, therefore, that the actual wording of the Act would appeal to the native mind

3213 At present in the case of anybody who was brought up in the old state of affairs, it is a complicated business to explain to him exactly what the existing position is?—Yes, but do you not think it will gradually die away?

3214 Perhaps. You express the opinion that to increase the circulation of the notes was a very important thing?—I think it is very important

3215 Does any way occur to you by which the popularity of the notes could be further increased?—Only what I just mentioned—that we should encash them at more places than the currency offices

3216 Is that feasible?—I think it is feasible. I think it might entail a higher coin reserve, that is the only thing

3217 Would it be possible at, say, the post offices always to encash 5-rupee notes if convenient?—Yes, I

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[Continued]

should think it might be possible, but I am not sure, and I would rather not say exactly

3218 I am rather thinking of instructions to Government officers to do this, in order to produce the impression on the native mind more than is the case at present that the Government would like to make it easy to cash notes?—I think it might be done

3219 At any rate, more could be done than is being done?—I think something more might be done, but exactly what I should hardly like to say without examining the thing closely, as I have never thought of it, in fact, my attention had never been drawn to it until quite recently and it was not drawn to it while I was in India. We never raised the question then whether we should encash the notes anywhere except at the special towns

3220 (*Sir Ernest Cable*) With regard to the suggestion that the post office should always encash 5-rupee notes if convenient to them, that would have a good effect so far as it went, but it would also have a harmful effect if one day the post office were unable to cash them, would that not lessen confidence in the note issue?—There would be an objection to uncertainty

3221 And it certainly might be criticised?—The fact is I have really not considered these things, I have not taken them into consideration at all. It would require a good deal of consideration before we could say exactly how far we could go in the extension of encashibility. You would have to consider all the points we have just been mentioning, and it is not an easy question consequently to answer off hand

3222 (*Mr Keynes*) In your time the Government did not consider whether they were pushing the notes as much as they could?—No, they did not—at any rate, not to my knowledge

3223 Mr Gladstone spoke to you about the amount of coin kept in the sub-treasuries, and he asked you on what sort of principle you had been acting, and you answered, as I understand, that the dominating consideration was that you should avoid the constant bother of the movement of money and so forth, because that was expensive and troublesome?—It is very expensive in such a large country as India

3224 But if you are prepared to face that trouble you might be able to have rather smaller balances at the sub-treasuries without risk?—That might be so at the treasuries, but you cannot have smaller balances at the sub-treasuries, because that is where we collect our revenue, and we do not make payments from the sub-treasuries, or at least very few

3225 As long as the alternative was to move the money into the reserve treasuries and there leave it idle the consideration of the trouble and expense would be paramount, but if the money that you move was being used you could set against that trouble and expense the interest earned, I mean the amount which the Government of India could lend or invest depends on the amount in the reserve treasuries, and the amount in the reserve treasuries depends on the amount in the other treasuries being kept as low as is convenient?—I am afraid I do not quite understand that. The amount which the Government can lend depends upon the amount we get at the reserve treasuries. Are you talking now of loans from the Treasury balances?

3226 No, I am speaking of loans from the Paper Currency Reserve, your original proposal?—A loan from the Paper Currency Reserve has no connection whatever with the balance in our Treasury. The balance in the treasury is entirely independent of the currency

3227 I thought you were speaking of the paper currency offices?—No, I think Mr Gladstone was speaking of the treasuries. But I quite see what is in your mind. If we did not mind the trouble and expense of remittances, we certainly could work with a smaller balance

3228 Is the amount of rupees at the currency offices all over the country kept down to the lowest point?—Yes. We fix the total amount of rupees in our currency at a certain maximum figure at the beginning of the busy season, and work down to the

lower figure at its end, but that maximum is a maximum with reference to all the Paper Currency Reserve, and not to the reserve at one place

3229 On what principle has that maximum figure been fixed?—It has been fixed upon the experience of previous years as to the absorption and the return of rupees from circulation

3230 Has it been overhauled lately?—Yes, quite lately, I think about 1910 or 1912, I have forgotten which

3231 You do not think there is any room for economy in that way then?—In what way?

3232 You think there are as few rupees scattered about the country in Government treasuries as is possible?—Yes, I think so. I think the amount calculated is a very reasonable one

3233 (*Sir Shapurji Broacha*) When you left India you think the Treasury balances had reached the safety point of about 11 or 12 crores?—I think the minimum was calculated at about 11 crores

3234 Have you any idea now what the figure should be for the safety of the Government?—I think it should be about the same. I think we calculated a fairly liberal figure at the time. We used to work with a lower Treasury balance, it was once about 8½ crores at the height of the busy season, and we raised it to 11 crores so as to give us a liberal amount

3235 But that was four years ago?—I think it was about 1909 or 1910 we began raising it. We did not do it all at once, in one year we raised it to 10 crores, and I think in the following year to 11 crores, I have forgotten the exact dates

3236 Supposing we put it at the utmost and say 15 crores?—We never tried to work to so high a figure as that

3237 If it were 25 crores now, what would be your advice?—But we had not that amount

3238 If 25 crores were in the Government Treasury Reserve, and that is the existing figure at this date?—It should not be 25 crores, as a matter of fact, unless you entirely change the principle of how much you draw away to England

3239 That is the balance, not the fixed minimum, as it exists now actually in the Government treasuries?—Do you mean in any particular month?

3240 At the end of last year, March?—You have got to recollect that the balance at the end of March is fixed with reference to what the balance will be on the 30th November

3241 That has been done for some time now. How much do you think would be lent in time of stress or strain on the money market, about five crores?—How much of what?

3242 Of the 25 crores balance lying in the Treasury idle?—We never required a higher balance than about 18 crores in India at any time. A little over 18 crores is our maximum balance on the 31st March, and we do not ordinarily require a higher balance than that in order to have 11 crores on the 30th November

3243 Ordinarily about 12 or 13 crores will suffice?—About 12 or 13 crores will suffice for these months, November, December, and January

3244 Supposing that in January you have 20 crores, I think it would be safely lent, what do you say?—Yes, undoubtedly

3245 Our fiduciary securities are now 14 crores on a circulation of 69?—Yes

3246 That is only 20 per cent of the whole now?—That is about it

3247 Do you not think, compared with what it is in this country and in other countries, that that is a very low percentage?—Yes, I think it is unnecessarily low

3248 In fact Government cannot afford if the Treasury balances are very low, to give you any loans from the currency balance against Government paper?—They could if it stayed as at present

3249 There are only about eight centres or eight circles for encashing notes, is that so?—I do not remember the number, but it is something like that

3250 Could not the Government, with their present machinery enlarge the number of circles?—I am not sure what the advantage would be

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3251 (Mr Gillan) But it could increase the number of offices at which notes could be encashed?—Yes, that is one of my points

3252 (Sir Shapurji Broacha) In one of the letters that has been put before us it is stated that the Government have to keep money in 200 large places and about 800 small places, so that when we are talking of a State bank which could have a number of branches, may it not be said that the Government have branches enough already if they choose to encourage the larger taking of notes by the people?—Yes, and I have just said that I think we could, perhaps, increase the number of places at which we encash the notes. Of course, we should not do so at every Treasury.

3253 Did you also say that money could be lent from the Gold Standard Reserve in time of stringency?—I said that it could not.

3254 (Sir James Begbie) I understood you to say that you thought you could not lend from the Treasury balances, because you could not count upon the Treasury balances?—That was so.

3255 Does that apply to the revenue collecting months in the early part of the year?—It might apply. You never know when a time of strain might fall on the Government. It is quite possible that we might be very short of money, and even have to stop the Secretary of State's bills. We did so, you will remember, in 1897. At that time a war occurred, and at the same time there was a famine and the war happened to be in August, but if that happened to be in January or in February, I am not at all sure, even although the revenue collection came in at that time, that we should be in a position to give money to the banks.

3256 Taking the figures over a number of years, the Treasury balances are always high, are they not?—Generally, I do not say that usually we could not give it to the banks.

3257 In the last two or three years there have been very large surpluses, do you think those surpluses could have been held in India and lent out, or do you approve of their having been brought home?—I approve of their having been brought home.

3258 You do not think they would have been more useful if lent out in India, so far as the money market was concerned?—Of course you could retain a certain amount of surplus for loaning in India, but then what are you going to do with it afterwards? Supposing you lent the surplus and did not draw it away when a favourable opportunity occurred, you would be left with it on your hands for the whole of the year except for the first two months.

3259 What would you gain by having it sent home?—By having it sent home it could be spent either in the avoidance of debt by capital expenditure, or in the reduction of debt. It is useful at home, it is no use in India.

3260 As a matter of fact it was lent out in London?—Some of it was.

3261 And it went to accumulate the cash balances?—No, I do not think that is quite right. My own idea is that a large portion of it was drawn away, and as soon as it was possible to employ it, it was employed either for capital expenditure or for the reduction of debt. Of course you cannot always employ your funds at the moment, because there are certain conditions which compel you to keep them perhaps temporarily in hand. The idea was to utilise them as early as possible, and I fancy they were utilised as early as possible. We should have been hampered in doing so if we had left them in India.

3262 I think a good deal of the balances in London were formed from the surpluses drawn from India?—Nearly all; in fact all except the few millions that they had at home.

3263 The balances rose to a pretty considerable figure?—They rose to a considerable figure, but I do not know that it could have been foreseen that they would rise to a particular figure. The Secretary of State, I think very wisely, drew away the balances as he was able to do so. In the long run he must draw

them away, in order to pay out home charges and to reduce debt.

3264 I am talking about surpluses?—And I mean that we must draw away the whole of the surpluses, we cannot leave them unutilised in India, unless you can present some alternative scheme, and I do not see any alternative scheme myself. To keep them simply in order to lend them to the banks for two months would not do away with the great inconvenience that we should experience if we, say, had some temporary debt, which we could reduce in the middle of the year at home, and we are prevented from doing so because we have not drawn away the funds. That perhaps might entail our raising more permanent debt at home which we otherwise should have avoided if we had drawn away the funds. I think it would be a very serious step to leave them in India for the purpose of lending to the banks.

3265 The surpluses might be used, might they not, to reduce taxation?—That is so, of course, they can be used to reduce taxation if you think the permanence of the surpluses is assumed.

3266 I understood you to say that you objected to lending, or that you did not approve of lending in India, because such loans might operate against the sale of Council bills, or because, at any rate, you would not get such a good rate for the sale of Council bills?—I did not say that I had a distinct opinion on the point, I said that it had been suggested, and perhaps there is some reason in it.

3267 After the Government have remitted all that they have to remit in the year, would you still consider there is any objection to lending in India? For example, in the last two or three years the Government have remitted all that they budgetted for very early in the year, perhaps by December, and then they proceeded to sell bills to bring the whole of the surpluses home, in a year like that do you not think that they might give loans in India and help the money market in India?—I think so as regards the portion which need not be remitted home. I think the reason, and the only reason, against it is the idea that if you do help the money market in India with loans, it will get into the habit of depending on the Government. I think that is the idea underlying the objection—that if you help trade, say, in one year like that you have instanced, a year in which it would be quite possible to do so, then in the next year it might not be possible, but trade would have come, after perhaps two or three years, to rely upon its being done, and it would cause trouble when it was not done. I think that is the feeling underlying the reluctance in India to lend the money.

3268 With regard to the loans from the Paper Currency Reserve, would you fix any periods for those loans?—I think that would have to be done.

3269 Would you fix any minimum rate at which they should be given?—I cannot give an opinion upon what the rate should be. It should undoubtedly be something below the bank rate of the day, but what rate I cannot say.

3270 But there would be no absolute minimum in the way of rate?—I suppose Government would not give loans unless it was absolutely necessary, that is to say, unless the bank rate showed it—unless the bank rate was at least 6 per cent to 7 per cent.

3271 I think you said that you consider gold in circulation is of no use to support exchange?—I cannot see that it is.

3272 For the support of exchange it is preferable to have gold in circulation rather than silver, because the more gold you have in circulation the less rupees you have in circulation?—Yes, that is so.

3273 So that negatively, anyhow, gold is preferable for the purpose of supporting exchange?—In that way, it is.

3274 Would you say that the experience of 1907-8 shows that there is some danger of an excess of rupee coinage?—I do not know that that is the case. I think the experience of 1907-8 is perhaps not the most severe strain that we may be subjected to. I think it would be dangerous to suppose it is the greatest we will ever be subjected to. Of course we know that we have got that enormous rupee coinage.

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3275 And you recognise that there is a danger attached to it?—There is, of course, a danger attached to it.

3276 You said something about alternative methods of drawing bills by the Secretary of State, is it necessary that there should be any alternative method of drawing bills?—I do not think I mentioned that, did I?

3277 I understood you to say that in the case of the Gold Standard Reserve in India, the silver branch was maintained so that it might be available?—I simply mentioned that because of the difficulty of withdrawing gold from the London market. That was my meaning at the time.

3278 You were thinking of the London market?—Yes, it was the old question of earmarking gold in the Currency Reserve.

3279 Do you think there is some disadvantage in coming gold in small pieces, and do you think it might lead to more gold being wanted for currency purposes?—I do not know that it would. I only said that as far as it did, it would increase the drain of gold and, therefore, might be regarded as an evil. I do not say, one way or the other, anything about its increasing the circulation because I do not know, and I think that it is mere guess-work.

3280 Do you think it would increase the demand for gold?—I think it would, if it increased the circulation or if the natives liked the 10 rupee piece better than they do the sovereign, otherwise I do not think it would have any effect.

3281 I cannot see how it could increase the demand for gold except through the action of the balance of trade?—In this way—at present you have got a certain amount of silver, and Indian merchandise is exchanged for foreign merchandise plus gold plus silver. Now the silver is used for three purposes—arts, hoarding, currency. If you replace any portion of that silver currency by gold, you will take more gold and less silver in payment for your products. Therefore, the use of the gold currency in India increases the drain of gold from Europe, unless you get the gold for it out of Indian hoards, which is unlikely, though there is no reason why you should not.

3282 In the case of silver you have to buy your silver, and you have to use gold to buy the silver with?—Your silver is really a matter more of what you import than of what you export. I am talking about the net imports of gold and silver, and you can leave the export of gold and silver out of account. For your merchandise you receive merchandise, gold, and silver, and part of that silver you use in coinage. As to the parts which you use in arts, and which are hoarded, there is no reason to think that the circulation of gold will alter those two parts. It alters the amount of silver in the currency because then there is more gold used and less silver, consequently, if you use more gold and less silver, you import more gold and less silver.

3283 Do you think you do so?—Why not?

3284 Do you not think the balance of trade is paid in gold and that it is Government which converts the gold into silver?—I am talking of the kind of things that are imported into India. You admit that you import merchandise, gold, and silver into India?—I say that if for any reason you increase the use of gold and decrease the use of silver in India, you will import more actual gold and you will import less actual silver.

3285 Do you mean in the currency?—In the currency or anywhere else. If you increase the hoarding of gold in comparison with silver, you will again import more gold and less silver.

3286 I am afraid I cannot follow that?—That is my argument. I may be wrong, but I think that is true. Suppose you use gold for a purpose you previously used silver for. The country naturally imports what it wants, and it will import more gold and less silver.

3287 Suppose the balance of trade is, say one million sterling, at the present time India takes say, half a million in gold and half a million in silver, that is for use as currency. How do you get that silver? Do you get it out of the balance of trade, which is half a million gold and half a million

which the Government convert into silver themselves, or do you take the total amount of the balance of trade one million, and say the total amount added to the currency is one million? Then if the habits of the people change and make them take gold instead of silver, do you say that the Government would not still take the one million of gold just as before?—I have not taken one million of gold—I have only taken half a million of gold. They have purchased with them produce half a million of gold and half a million of silver and I do not see how you can get away from the fact that they actually send goods out of the country and that they actually bring in gold plus silver, that if they want more gold than silver they will decrease the amount of silver they will bring in and increase the amount of gold they will bring in, and that that must increase the drain of gold from Europe. That is what I hold, and I think it would be the same thing if the 10 rupee piece is simply passed through the mint into hoards.

3288 I am talking about passing into currency only?—I think the same thing occurs in both cases, myself.

3289 With regard to the Gold Standard Reserve, I think you said you thought it ought to be held at home because it was wanted at home in a crisis?—Yes.

3290 As to the liability to convert rupees into gold, does not that liability fall due in India?—No.

3291 The people who want rupees send home for gold to get rupees?—Yes, but they do not want to receive the gold in India, they want to receive the gold in England.

3292 I think the liability is in India, and you have to convert the rupees in India?—Will you offer them gold in India and see what they will say? We did offer them gold in India, they did not send it home, but they asked us for gold in England.

3293 That was because you gave them the offer, was it not, if you had not had the gold in London, what would have happened?—Do you mean that they would have preferred to send the gold home themselves rather than have it here?

3294 I do not say they would have preferred that, but I say the liability to make the conversion is in India, what do you say to that?—I do not know exactly what is meant by the liability.

3295 The liability of the Government?—Theoretically it is so, but it is not so practically. We are supposed to buy back the rupees, and we are supposed to buy them back in India.

3296 (Mr Gillan) I suppose that there are really historical reasons for the present system of treasuries in India, that is to say, they grew up at the time when there was nobody else to do the business?—That is so.

3297 Do you think there is a case for reconsidering it under more modern conditions, I mean with the extension of banking facilities, does it seem very well adapted to these more modern conditions which we have now?—What do you think is not adapted? I am afraid I do not understand.

3298 I mean having an entirely different Government machinery that goes down from the Presidency towns right through the districts, with sub-treasuries, running alongside a fairly developed banking system, duplicating it more or less. I am not putting any definite scheme before you, I am merely asking whether you consider that there is a case for reconsidering the machinery of Government finance in India?—I am afraid I do not quite see the point. It is impossible to say, without knowing exactly what is in your mind, what machinery should be substituted for it.

(Mr Gillan) Some method of, we will say, joining it on to the banking system without the banks taking it over in some way.

3299 (Chairman) Would you agree that wherever the Indian Government can persuade the banks to start a branch at less than the cost of the treasury to themselves, they would be wise to pay whatever within that figure is required to induce the bank to do so?—I think that might be so. I think if we could get an



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[Continued

extension of banking facilities in place of a treasury it would be a good thing. It is the practical point of view that I am looking at. A bank does not work for the benefit of the public, it works to earn dividends, and if the place is such that it cannot make it pay, then they cannot go there. There are hundreds of places where they could not make it pay.

3300 (*Mr Gillan*) As a matter of fact, can you tell us on what sort of terms the Presidency banks have started new branches?—They have started them very reluctantly, and once or twice they dropped them after they had started them, because they did not pay.

3301 What sort of terms had we to give them?—I do not remember giving them any special terms, except allowing a minimum balance to rest with them.

3302 We guaranteed a minimum balance?—Yes.

3303 For a number of years?—Yes.

3304 That method obviously cannot be very largely extended, can it?—It could be extended.

3305 I mean without increasing your Government balances as a whole. If you earmark five lakhs here and five lakhs there, and if you increase the number of branches substantially, the total would mean an addition to the minimum Government balances?—Yes, it would.

3306 So that there is not very much to be done along those lines, is there?—I am afraid I have rather forgotten. At one time I did know how the matter stood, but it is four or five years since the question was dealt with.

3307 (*Chairman*) Have you ever paid a direct subsidy to any branch?—I do not think so. I do not remember doing anything except guaranteeing them a minimum balance, that was about the only inducement.

3308 You probably would be familiar with the cases where private individuals, great contractors or great companies, for instance, have found it worth while to subsidise a particular branch in order that they may have banking facilities where they are carrying on their work, no banking facilities existing there previously. You do not think that has ever been considered?—I do not think we ever have considered it. My memory is rather bad as to exactly what occurred when we were trying to press the extension of branches, which was about six or seven years ago.

3309 (*Mr Gillan*) I think the only terms offered were the guarantee?—I think that was all we did.

3310 In addition to those treasures scattered all over the country we have got these very large balances at the Presidency towns?—Yes.

3311 And as you know, we have a big business in transfers between the Presidency towns and up-country?—Yes.

3312 I want to ask you, as an official who has dealt with these things in a practical way for a long time whether you do not consider that that sort of business would be better run by experienced bank officials rather than by Government officers?—Yes, I do think so.

3313 Now how about the loans in India, you said. I think in answer to Sir James Begbie, that there was, as a matter of fact, a surplus balance available over and above the minimum working balance in the latter part of the busy season, that is, from January to March we will say?—There usually is, I think.

3314 Your chief objection to lending it out is that it cannot always be depended on?—That is so.

3315 That is to say, there would be years in which there might be no surplus?—I agree.

3316 At the same time that is a surplus which we are bound to have temporarily in India in a good year?—Yes.

3317 Because we are aiming at finishing the financial year, as you said, with a balance of about 18 crores?—That is so.

3318 Does that not mean that that is liable to be drawn off by Council bills?—May I say that finishing the financial year with a balance of 18 crores is of no importance except for one purpose, and that is, so as to be sure on the 30th November of having a balance of 11 crores, otherwise the 18 crores balance is very much higher than what we can work with on the 31st March.

3319 That I quite understand, but as a matter of fact, in order to secure an economical balance at the end of November we did always budget for a closing balance of somewhere in the neighbourhood of 18 crores?—Yes, always.

3320 From January onwards you have a certain amount over and above the minimum working balance?—Yes, we do.

3321 It would be a temporary advantage to the Government to lend that out?—Yes.

3322 It would be making interest?—It would.

3323 And in the years in which they could so lend money from this Treasury balance it would be an advantage to lend it, would it not?—Yes.

3324 Do you not think those two advantages are at any rate to be taken against a possible disadvantage in some year in which Government could not afford to do it?—I think so. I do not hold any very strong opinion against lending the Treasury balances to trade. I say that there are objections to it and I mention the objections, but I do not personally hold a very strong opinion at all against doing it.

3325 But you recommend lending from the currency reserve?—Where it can be done.

3326 Still, that does not exclude this question of lending temporarily from the Treasury balance?—No, it does not.

3327 The two things are not in conflict really?—No, not at all. I merely mentioned the currency policy as one that might be followed if the Treasury policy were entirely rejected.

3328 Several questions have been put to you to-day about the extension of facilities for the encashment of notes, and I think you said in answer to Mr Keynes that that question has not really been considered by the Government of India?—It was not in my time.

3329 When the question of the universalisation of notes was under consideration, the main difficulty always considered was the difficulty that might arise from the use of notes in remittances, was it not?—Yes, that was the main difficulty.

3330 Government was afraid, in fact, of being flooded at some particular currency office by an enormous number of notes collected elsewhere and of not being able to cash them?—Not only that it was afraid it might be necessary to move cash in order to do that.

3331 Do you happen to know as a matter of experience, since universalisation was carried out, whether that difficulty has arisen or not?—I do not know. You must remember that universalisation only preceded my departure from India by a very short time, and there really had not been sufficient time to gain experience of it when I left India.

3332 The reason I am asking you about that is this. We were talking about the extension of offices at which notes could be encashed, probably the difficulty that was in your mind is precisely this remittance difficulty, is it not?—Yes, it is.

3333 If the experience of universalisation of notes had shown, or has shown, that that difficulty has not in point of fact, arisen, would it affect your view of this question of increasing the number of offices?—Not quite. The two things are on rather a different footing. The universalisation of notes merely meant that they could be encashed at the head currency offices. As you know, we keep very large amounts of coin ordinarily at the currency offices, but we do not do so in the case of the treasuries. We have never been in the habit of doing so, and to do so we would have to increase the coin reserves.

3334 The distances between the different currency offices at present are very large, are they not?—Yes.

3335 In order to protect ourselves against the excessive use of notes in remittances we arranged when they were universalised to give transfers?—Yes, we did.

3336 At a nominal rate?—Yes.

3337 Do you agree that that is a safeguard?—Yes.

3338 And it is a safeguard that would not apply to any great extent between two adjacent places?—It probably would not.

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[Continued

3339 Do you not think the possibility of a political crisis is a possibility which, in the circumstances of India, has got to be very seriously considered?—It has

3340 Would that affect your view as to the extent to which it is desirable to carry the fiduciary portion?—Do you mean the extent of the investment?

3341 Yes?—If the reserve is safely invested, if the investment is in securities which are easily realisable in England, for instance, would it affect it seriously? Are they not nearly as good as gold?

3342 Is not this necessity of encashment one which conceivably might come on Government very rapidly? If at any time the stability of the Government were threatened in any way, might there not be an absolute rush to get the Government notes encashed?—Of course there might, it is possible

3343 What I want to bring out is that it is not merely a seasonal need that would have to be provided against, but also the effect of some such circumstance as I have put to you?—I quite understand that

The witness withdrew

At the India Office, Whitehall, S.W.

NINTH DAY.

Friday, June 27, 1913.

PRESENT

THE RIGHT HON AUSTEN CHAMBERLAIN, M P (*Chairman*)

Lord FABER  
Lord KILBRACKEN, G C B  
Sir ROBERT CHALMERS, K C B  
Sir ERNEST CABLE  
Sir SHAPURI BURJORJI BROACHA

Sir JAMES BEGGIE  
Mr ROBERT WOODBURN GILLAN, C S I  
Mr HENRY NEVILLE GLADSTONE  
Mr JOHN MAYNARD KEYNES  
Mr BASIL P BLACKETT (*Secretary*)

Mr ALFRED CLAYTON COLE called and examined

3344 (*Chairman*) You were till quite recently, the Governor of the Bank of England?—Yes I gave up that office in April last

3345 I think you appear here to-day as representing the bank?—Yes I should like to say that the governor of the bank was asked to nominate someone to represent the bank I wish the Commission clearly to understand that the bank is only too willing, indeed is desirous, to help the Committee in any way that it can, but when I was asked to write what you may call a piece of evidence, we wrote back to your secretary that while the bank is perfectly willing to answer any questions to the best of its ability, as we are the bankers of the Indian Government we do not wish in any way whatever to appear here as then critics

3346 I think the Commission quite understand the position and we are very much obliged to you for coming?—I will endeavour to answer, as far as I can any questions that are put, but if there should be questions to which you should desire what I will call a considered answer from the bank of course I must ask for them to be submitted in writing, and then I will consult the bank I represent the bank but it is difficult always to represent the opinions of 26 people As far as concerns those questions which turn on the points in the paper that was handed to me by your secretary, I think I can probably give you what is the opinion of the bank Any other questions that may arise, you will quite understand, may require a little consideration, and I may ask you to let me give the answers possibly later on on behalf of the bank

3347 We quite understand that The first question I want to ask you is a general question which, I think, lies at the root of a good many of the subjects we are inquiring into Can you tell me in outline what are the relations between the Indian and the London money markets?—My reply to that question would be that there are no direct relations between the London and Indian money markets The discount rate in London affects the exchange rates, and any gold demand for India hardens the discount rate in London,

that is to say, there may be a considerable indirect effect. If you ask, are there direct relations between the Indian and the London money markets, personally my answer would be in the negative That is a question which you may better address to the Anglo Indian banks, no doubt many of whom you will have before you

3348 Do you regard the present system, by which a Government department through the Secretary of State lends money to the London money market, as open to objection in principle?—Yes, I do, that is to say, I think it is objectionable to have large sums of money raised in London which are, so to speak, not in any sense required for English trade The loans in the market of the Indian Government are very large I had the figures taken out the other day at the bank, and I find that the amount they are lending now through their broker is approximately 11 millions That is money which, in the London money market, you can hardly describe as good money, because it is liable to be withdrawn for reasons which have nothing to do with what I call the London market The India Office lend the money at the best rate they can get quite independent of what I call the considerations affecting the London market proper, therefore, that money may be lent and is at times lent in a way which is disadvantageous certainly to the Bank of England, which has to look after the gold reserve of this country

3349 Will you develop that a little, in what way is it disadvantageous?—The India loans are made by the broker, and he lends, as I said at the best rate he can get, and that rate at times is, I should say, below what it is desirable in the interests of maintaining the discount rate in London that it should be lent at We had a case quite recently in which the India Office was lending money at rates which to us at the bank looked to be too low You have, therefore, a big lender lending money which is at call, and at times—I do not say it often happens but it does at times—acting quite against the central institution which is responsible for the maintenance of rates As you will well understand, if the discount market get cheap money they will put down the rate of bills

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[Continued

3350 Your criticism is that it weakens the control of the Bank of England over the money market?—At times it undoubtedly does

3351 And that that control is the only buttress for the gold reserve of England?—Quite correct, therefore it may be, and it does at times—not often though—work against what we consider the interests of this country

3352 In so working against English interests—you will understand what I mean by that phrase—do you think that it incidentally is disadvantageous to India, or is the profit all on the side of India and the loss all on the side of England?—That depends upon how the money is raised. If you raise the money by bills and the Indian Government has had out some five millions of bills, I should think that it was paying a higher rate for the discount of those bills than it was getting for its money. If that balance is accumulated here merely out of Council drawings I am not able to say whether the rate that they get for their money is or is not higher than what they paid for it. That is a question which the India Office can answer and not myself

3353 To the extent to which the money is raised through the sale of Council bills and telegraphic transfers, is it correct to describe it, as I think you did, as money raised in London? Is it not merely the payment by London of a debt through the Secretary of State instead of a payment by London direct to India?—Probably that is the case. Undoubtedly payment of the drafts has to be made in India and in that sense it, of course, is money raised in India and not in this country

3354 The alternative to the sale of those bills and drafts would be the shipment of gold to India, would it not?—It might be so. It does not necessarily follow that the gold would be shipped from this country, but that might be the result

3355 Do you mean that it might be a shipment of Australian or Cape gold?—Yes. London is the financial clearing house, and it does not necessarily follow that it would have to come from here. In these days of telegraphic transfers there is a good deal of business done from Australia to India, and that takes the place of a shipment from here

3356 When you get to the bottom of it, though it may pass through intermediate stages, is it not in truth and in essence the payment of a trade debt owing by London to India?—Owing by somebody to India

3357 Where the money so raised is represented by Indian Treasury bills, am I right in thinking that those would be raised in anticipation of the Secretary of State's capital requirements?—I know nothing of that. I cannot give you any opinion as to what the Secretary of State's requirements are

3358 You only know that they are raised?—I only know that

3359 Were you referring just now to the loan made in 1908 or some more recent transaction?—I was referring to India bills which were in the market for a considerable time, I do not know what they were raised for, but they were raised, and I should have said they might have been paid off earlier than they were paid off. The bills I refer to were paid off about last year or the year before

3360 I think those were raised in the famine year of 1907-8. Has this system of loans on the London market any effect upon the success or otherwise of Indian loans raised in England?—The system of lending money in London does not damage Indian credit. A man who has any funds and who wants to borrow is in a better position than a man who is bound to borrow

3361 In making these loans against approved security, the Indian Government has been accustomed to advance on the face value of its own securities, on the market value of the best British Government securities, and at 5 per cent. below market value on the next class of securities—all, of course, being a very high class of securities. It has been represented to us that this preference given to their own securities is on the whole desirable as tending to help them to

place their loans at good rates, do you agree with that view?—I agree with the view that it assists those loans, decidedly. In the market, so to speak, looked at from the Bank of England point of view, it makes those stocks into a kind of what are called "floaters"

3362 Of course, *prima facie* it strikes one as curious that they should take an Indian security at its face value even though its market value be below it, and that they should take a British Government security only at its market value. Would you advise the continuance of that practice for the reason you have just given?—I was not aware that it was done

3363 These are the details: "India debentures, India bonds, and guaranteed debentures of the several Indian railway companies, are taken at their par value. Treasury bills, Exchequer bills, Exchequer bonds, India sterling bills, Metropolitan Water Board bills, and London County bills are accepted at their market value, instead of their nominal amount" (see Appendix XI, paragraph 5, page 310), and then India  $3\frac{1}{2}$  per cent., Metropolitan Consolidated Stocks, Corporation of London debentures, and the bonds or bills of Colonial governments and others are accepted at 5 per cent. below their market value?—I should say that to take a security at par value when it may be 10 per cent. below par is bad finance. Personally, this is the first time I have ever known such a thing was done

3364 (Lord Faber) It is not as much as 10 per cent., but the principle is the same—more is lent on it than it is worth?—That is bad business then

3365 (Chairman) It was represented by a witness to whom we put that question, that as the Government of India was both a borrower and a lender, on balancing its two interests, it was worth while to take this risk as a lender for the extra advantage which the Indian Government got as a borrower, do you think that is sound?—No, I do not. I see they have put in Colonial Government securities. We, at the Bank, have never accepted Colonial Government securities as floaters, and I imagine that those Colonial Government securities have only been put in because the India Office broker finds a difficulty in obtaining sufficient other securities. In so far as the Indian Government are taking those Colonial securities, they are departing from the principle that we have always held at the bank, that those floaters should be confined principally, though not entirely, to British Government securities. Therefore, in that respect I should say the India Office in this action are working against the interests of the British Government

3366 Do you include the large British municipalities with a population of over 500,000, whose stock is put here in the same class as the stock of Colonial governments?—Do you mean at the Bank of England?

3367 Yes?—We only include municipal stocks when they are denuded at the Bank of England

3368 Has India, in your opinion, borrowed too much of late?—Our answer to that question is this: India has probably not borrowed too much, but the fact that it is known that she will continue to borrow annually does naturally tend to keep down the quotations for her loans. I would like to add that if India at any time requires money on a large scale, she would probably have to issue a loan with a fixed date for redemption

3369 Can you give me some indication of what you mean by a large scale? I can see that it must be an elastic figure?—I mean if she came in and asked for 25 to 30 millions. The big investment world now, which includes the bankers, and so on, are undoubtedly giving a preference to loans with a fixed date for redemption

3370 That would apply, therefore, to other borrowers as well as to India?—Undoubtedly. I would go so far as to say that, if this country, unfortunately, were at war, and we wanted a large sum of money, I think you would have to alter the system of borrowing by this country

3371 Has the credit of India declined relatively to that of other borrowers?—I think not, if you compare the quotations for her loans with other trustee investments which have no fixed date for redemption. All the Colonial loans have a fixed date for redemption

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[Continued

and from some figures that I had taken out, because I thought you would ask this question, it seemed to me that Indian securities had gone down more than Colonial securities, and I think that is the reason of it. If you compare the decline of Indian Government securities which have no fixed date for redemption with other trustee securities of a similar class, that is to say, where there is no fixed date for redemption, but which have gone down, I do not think the result will be found adverse to India. But I should think you have already had that question answered.

3372 May I return for a moment to what you were saying about the Indian money loaned out on the London money market, and to the inconvenience of the practice in certain respects? Would what you have said about this Indian money apply equally to any foreign money that happened to be on the market Japanese money for instance?—To any money which is of such an amount that the withdrawal of it without notice would be of importance to the London money market.

3373 Foreign government money on the London money market, if of sufficient amount, therefore would be entirely open to the same objection?—Yes.

3374 Have you anything to say as to the relations which prevail between the India Office and the Bank of England?—The relations between the India Office and the Bank of England have always been most cordial and friendly, and the bank has always endeavoured to assist the India Office as far as possible. Last year, however, as the members of the Commission are doubtless aware, a difference arose between the Bank of England and the India Office over the question of the purchases of silver.

3375 Have you anything to say about that?—No. The details of the differences are public property.

3376 It has been suggested that the Government of India might avoid some of the difficulties they have experienced in the past if they purchased silver fairly regularly, that is to say, if, instead of waiting until their demand is a very large one, they purchased year in and year out a certain more or less average amount of silver. Have you any observations to make on that?—I think they know perfectly well that they will require silver, and therefore I think, having regard to what I call the ordinary prudence of merchants, they should not wait until they are put into the hole.

3377 Have you looked at the figures of the circulation of silver coin in India? I ask because our attention has been drawn to the fact that they vary very much in particular years, and that the amounts required as between two succeeding years have varied as much as 20 millions sterling?—I have not. I only know roughly that there is a demand for silver in India dependent very largely upon the monsoon, and of course the Indian Government cannot control the monsoon.

3378 It has been objected by some of the witnesses to any proposals for buying silver regularly, that the result would be that they would be in the slack years altogether overloaded with silver?—That is a thing on which I have no opinion. That is a matter which the Indian people must settle. We at the bank could not possibly have an opinion on that, because we know nothing about it.

3379 To turn to quite another subject, I think you know that there have been suggestions for the creation of a State bank in India, have you formed any general view on such a proposal?—I think the question there rather is, what do you mean by a State bank? Do you mean a central bank or do you mean what I call an official State bank?

3380 Let us take both alternatives in turn. Suppose it meant merely a central bank?—On that point I should say the opinions of the bank differ. I think, as the Commission are aware, one of our directors is a strong advocate for the founding of a central bank in India.

3381 Is that Sir Edward Hambro?—Yes, that central bank to be with or without a branch in London. The position of other directors is that while not directly opposed to the foundation of a central bank, they are willing to leave matters as they are, as they

see no necessity for a central bank. On that particular point you will not get unanimity of opinion among 26 people.

3382 If it meant a State bank in the strict sense of the term, what would be your opinion then?—A State bank in the strict sense of the term would probably be what you have got now, that is to say, you would have a department of the State in which the State would be the shareholder, and that would run the finances of India much as it does now. The whole object of a central bank would be, to my mind, to take the practical financial control out of the hands of the Government and make that bank the Bank of India instead of what is the position now. I think all the evidence, so far as I am aware, makes out that the Government are the principal bankers in India.

3383 I conceive that the object of a State bank would be to discharge the Government from its present liability for managing exchange on the sale of Council bills and transfers, and for the management of the currency?—I can see that a central bank which is going to take the control out of the hands of the Government might be a very desirable thing, but at the same time I do not quite understand how in India which is a continent and not a country like this is a country, you are going to have a Bank so established that it may make a good return upon its capital. This is a question which has been before the Indian world ever since the Fowler Committee, and as I gather, the opinion over there is that the time is not yet ripe for it, but without my knowing the view on the other side I personally am not prepared to give what I call a decided opinion upon it. To argue from India to England is arguing upon two things which are not quite alike. Here in England we have got a central bank which performs functions which it seems to me could not be performed by a central bank domiciled in one of the Presidency towns, Calcutta, Bombay or Madras, where it would be the main bank. As I say that is a point upon which, as I have no Indian knowledge whatsoever and have never been there, I am not prepared to formulate a very definite opinion.

3384 On the whole I gather you think the currency business and the exchange business is done very well by the Indian Government at the present time?—I have no criticism to make on the subject.

3385 Do you think it would be likely to be better done, and to be less open to criticism if it were not in the hands of Government officials whose special training for the purpose must necessarily be somewhat limited, and if it were placed instead in the hands of banking experts?—If you could get them I think probably it would be better run, but, as I say, I have no definite knowledge. The people who have been out in India tell me there is a practical difficulty of getting a sufficient permanent body of competent men to run a bank, entirely apart from what I would call Government interference, but upon that point, as I say I have never been to India, and I cannot give you a definite opinion. In theory I think everybody would say it is better that the banking business should be done apart from the Government, but when you talk of a bank, you have got to get the capital for it, you have got to get your shareholders, and you have got to get your board of management, and I am not prepared to say, one way or the other, that that is possible in India at the present moment.

3386 Suppose such a central bank were established as you have been speaking of. How much Government control over such a bank would be necessary or desirable?—I think the answer should be the less the better.

3387 Is that possibly a reflection of English circumstances on Indian conditions?—Possibly, but that would be my answer to that question.

3388 As regards the establishment of a gold mint in India, have you formed any views on that subject?—I am not personally opposed to a mint coming gold in India, but so long as sovereigns are taken for the currency, local minting seems unnecessary. As regards a mint, if India is going to use coins minted here, she ought to pay for what I call keeping them up to proper value, that is to say, any loss on those coins

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[Continued]

should not fall on this country, but should fall on the country where the wear and tear takes place.

3389 Suppose that mints were established in India, do you think that much gold would be taken there to be coined?—I imagine they would coin the gold they produce.

3390 Sometimes the gold mines there are under contract to send all their gold to this country for a period?—Then gold, I think, still comes to this country, but I imagine the ultimate result would be that they would coin their own gold.

3391 Do you think a mint in Bombay, for instance would attract South African gold?—If India wanted gold for its coinage, yes. I should say South Africa is nearer to India than it is to London, slightly.

3392 I gather from you that your view is that the mint would not have any effect on the coinage, but the coinage would have an effect on the mint?—A mint, *quâ* mint, cannot increase the circulation of gold except very temporarily. It might very temporarily increase it in this sense, that it might supply a deficiency of coin if it could turn out that coin more quickly than it could get it, say, from this country, but *quâ* mint, a mint cannot increase or decrease the circulation of gold.

3393 Supposing that Indian opinion were in favour of the opening of a mint, have you strong views, either way, as to whether they should coin sovereigns or rupees?—Personally I think they had far better coin sovereigns.

3394 That, of course, would make the establishment of a mint in India a more costly experiment, owing to the control required by our Treasury?—That I know nothing about.

3395 Perhaps you would agree with other witnesses who have been before us, that after all, what the currency medium is to be must depend upon the demand of the people of India, and the Government must supply whatever the people ask for?—Yes, I imagine so.

3396 But in so far as Government can influence the circulation of one form of currency rather than another, do you see any advantage in increasing the amount of gold in circulation?—The increase of gold in circulation has this advantage, that in case of the balance of trade being against India, if a large amount of gold is in circulation, that gold can be exported.

3397 Do you think the gold that is in circulation is of much value for the support of exchange in a time of crisis?—I should say so, undoubtedly.

3398 You think it comes out, do you?—That is my impression. As I say, I have no knowledge of Indian conditions over there, but if you have got gold in the country, and the people are impoverished and that gold returns from circulation, then undoubtedly from the Indian point of view of maintaining exchange that gold is far more useful than rupees which have to be melted and sold at bullion value.

3399 The point, of course, is whether, having gone into the pockets of the people it will come out at the time you want it?—That is a question which you must put to an Indian, not to me.

3400 We have had it in evidence, I think, that in 1907-8 about  $\frac{1}{4}$  millions of gold was issued, and that of that only a quarter of a million was exported and went to the support of exchange?—That would be about a sixteenth of the whole. If you had 16 millions in circulation, then you would have a million on that basis for export.

(Mr. Gilman.) I think it was a sixteenth of the issue of that year, not of the whole.

3401 That is rather a costly load to carry for such small results, is it not?—But you have got to have something in circulation. You will not get the profit on the silver, I admit.

3402 A paper currency would be much less costly than that?—Yes.

3403 (Chairman.) I come now to the Gold Standard Reserve. I think you know generally, in fact I am sure you know, what the position is. Do you approve of the way in which it is now held, or should, in your opinion more of it be held in India?—I should say I have a very decided opinion upon that point, and it is

this. Up to last year I believe no gold was held in India in the Gold Standard Reserve, but the Gold Standard Reserve was entirely invested in securities. You ask whether it should be held in India or in this country, so far as any gold in the Gold Standard Reserve is to be used for maintaining exchange, it should be held in this country and not in India.

3404 Will you give me your reason?—Because for the purposes of exchange, bills, as they were in 1907-8, would have to be drawn upon London, and if the gold is not here it will have to be sent from India to meet those drafts. It is far better and simpler to have the gold here, and not to have to send it at the time when you are drawing drafts.

3405 Do you object to holding any portion of the gold reserve in securities?—No, provided you start with holding gold. That, I believe, has been recognised now. I understand that—I believe it was only last year—the Indian Government have decided to hold five millions of gold in the Gold Standard Reserve. Last night—I had the figure taken out at the bank—they had 1,730,000 in the Gold Standard Reserve, therefore they have made a beginning. That sum, I understand, they are going to make, under their present arrangements, up to five millions. The original intention of the Gold Standard Reserve, I believe, was that the whole of it should be held in gold. That I do not think is necessary when you get beyond a certain amount. The question is what amount is desirable—whether the five millions, that is the proposition—is sufficient. Personally, I should say that the five millions would not be sufficient, and that it ought to be 10 millions, unless the Indian Government clearly see their way in an emergency to use the gold that they hold in the currency reserve. They have got in their currency reserve to day 6,100,000 here, and provided they can see their way to make use of that gold there is no object, and never is any object in banking business, in sitting upon a mass of unnecessary gold.

3406 When you say that they must see their way to make use of that gold, do you mean that in case of crisis they should ship it at once from India?—They have got that here, we have got 6,100,000 of it in the bank. What I am looking at is this. In 1908, when trade was adverse to India, the Indian Government had to sell out something over seven millions of their Gold Standard Reserve securities—you have got the figure, it was over 7½ millions, I think—and a similar contingency must be provided against in fixing the amount of gold they would hold here, because you will probably come on it later. If the storm centre of financial difficulty, which fortunately in that year was in New York, had been in England, the Indian Government might not have been able to sell their sterling securities at all. Of course, they could have sold them at a price—I mean, a give away price. That holding merely of sterling securities is not only a danger to the Indian currency position but to this market also. Fortunately in 1908 the storm centre was not in London and the difficulty was got over, but when the Government is making its regulations for its currency they ought to be made in such a way, to my mind, that they provide for all eventualities, and in that respect India should bear its own burden and not throw that burden upon the London market.

3407 Do I understand your view to be that in one form or another India ought to have in actual gold the largest sum which you conceive she may need in a bad year?—That is practically so. I think beyond that it is quite reasonable she should invest her Gold Standard funds. They cost nothing, they are pure profit out of the silver and they have never cost India a fraction. But provided that what I call a reasonable sum is held—and as this Gold Standard costs her nothing it ought not to be what I call out too fine—provided she holds a sufficient sum, I think the rest can reasonably be invested in securities. But I tell you from my point of view or at least the bank's point of view, that gold should be held in this country and not in India.

3408. You, I think, put the sum which you consider would be required for the purpose, or which it would

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be reasonable to have for the purpose, at something like 10 millions or 11 millions?—I am looking at what happened in 1908, when something between seven and 10 millions was required—I do not know exactly what it was, but it is known to the Commission India, to my mind, ought to hold definitely in gold a sufficient sum to meet such a contingency in the future

3409 Do you think that is quite sufficient? You say that at that time New York was the storm centre, the storm was very severe there, and the crisis was very widespread. It was coincident with a famine in India, but that was, I think, by no means the worst of the famines that India has experienced. Suppose that that financial disturbance in New York and the rest of the world had coincided with a very bad famine in India, or with a period of war in India, would it be safe to take as the measure of her possible requirements what she actually needed in 1908?—No. I guarded myself against saying that that amount was specific. I said she had got to provide for what I call any probable contingency.

3410 As regards the remainder, have you anything to say as to the class of securities in which it might be invested? Would you confine it to short dated securities, or would you allow them to take, as they did at one time, consols?—They would prefer undoubtedly to take short dated securities—I think I mentioned that before—because the depreciation on those is very small. Therefore, from the point of view of not having any loss on securities, undoubtedly they had better take securities with a due date, but I should not what I call definitely preclude them from taking other securities, such as their own, they have got their own which have not got a due date, and I do not know that you should rule them out.

3411 You put it very fairly, I think, that India ought to be prepared to save herself in a time of crisis, and not rest her weight on us. If all this gold is held on Indian account in England, is it held in London in addition to the gold that would otherwise be here?—Absolutely.

3412 And it is not taken into account in any market calculations here?—Not at all. It never appears in the Bank of England accounts as published, and it is quite incorrect to say that the market here takes it into any account at all. In dealing with this question there is one point I would mention, it is only a matter of detail, but I think as I am talking about the Gold Standard Reserve I should mention it. It is merely a question of the form of accounts, which I raised in 1909. In the Gold Standard Reserve the Indian Government put in their statement "Cash placed by the Secretary of State for India in Council at short notice." I have objected, and strongly objected, to that, it is a contradiction in terms to state that you have cash at short notice. Cash ought to mean coin, bullion, or bank notes. While I have never thought it makes very much difference in the accounts, say, of English banks, I raised the objection because I do not think a Government department ought to use words loosely, and the one thing about money on short notice is that it is not cash. I see they go on in the same way, but I call attention to it because I think it is wrong, and I do not think Government ought to use a wrong word in that sense. I have told them it is not cash, and, as a fact, there have been times when the India Council called for the money, and they could not get it, there fore it cannot be cash.

3413 One of the witnesses who has appeared before us seemed to think that securities, short dated securities especially, were just as good for the purposes of this reserve as gold, and he presented an argument that what was needed in a time of crisis was not actual gold but what you call bankers' money, and that these securities fulfilled that purpose quite as well as gold. I gather that is not your view?—Certainly not—not in a time of crisis.

3414 Their realisability in a time of crisis rests on what, ultimately? Does it rest on the gold reserve of this country?—I should say it rested on the power of the Bank of England to advance money to buyers to pay for the securities.

3415 Therefore, in the last resort, on the gold reserve of the Bank of England?—Undoubtedly.

3416 Your argument I think is, as I put it just now, that in a time of crisis you do not claim that India should support the London market, but that it should not be an additional drain upon it, and should carry its own burden?—It should carry its own burden.

3417 I want to ask you a couple of questions about the paper currency system of India. Do you think it would be an advantage if some steps were taken to give it greater elasticity?—Not having any practical knowledge of Indian finance, that is a difficult question for me to answer. I do not quite understand the expression "to take steps to give it greater elasticity."

3418 The conditions under which notes can be issued are at present very strictly limited, would you allow the fiduciary portion of the issue to be extended by the Government of India under any circumstances or conditions?—That is a question which it is a little difficult for me to answer in this respect, that I do not know how far or how near India is getting towards a cheque system. As regards the fiduciary issue, provided you have got the fiduciary issue below an amount which can never go back to the Treasury, there is no objection to that fiduciary issue. The Act of 1844 fixed the fiduciary issue in this country at 14 millions. That has nothing whatever to do, as many people suppose, with the Government debt, or anything of that sort, it is simply an amount below which it was thought that the issue would not come back to the central institution, and that has proved to be correct. Owing to the cheque system which of course has been an admirable thing for this country and a most admirable thing for all finance, the note issue of the Bank of England to day instead of increasing is rather inclined to go back, it has practically remained stationary for the last four or five years. When you are dealing with India, which is, in a sense, from a banking point of view an entirely new country, it must not be lost sight of that the introduction of a cheque system in India would probably materially reduce the note circulation, which has undoubtedly increased and is increasing. I took out the figures of the note circulation the other day, and as far as I could see, the active note circulation has more than doubled in the last 20 years. Therefore from that point of view you can see that you can safely give the Government increased fiduciary issue powers. But while I say that, if you are going to have a development of banking and if you are going to have a cheque system introduced into India, you cannot then count upon an increase of the note issue in the future as you have done in the past. That, however, is a practical question on which you must ask those who know India, not me. I have been told—and I am only telling you what I have been told—that banking and cheques are increasing in India. I think it would be incorrect to have the fiduciary issue in India increased in a way that might ultimately lead to possible trouble. Of course when you are dealing with India, if it be found in the future that the fiduciary system should be reduced, well, you can reduce it. At the present moment I believe the active issue in India is about 44 crores and the fiduciary issue is 14 crores—roughly a third. If you are going to get the note issue up to 60 crores, then you can say that that fiduciary issue might be increased to 20 crores, provided it is recognised that if the issue goes down, steps should be taken to carry out the principle of reducing the fiduciary issue strictly, because you do not want to have the slightest doubt upon your note issue. Here in this country if it had not been for cheques probably the note issue of this country would have been as big as it is in France.

3419 If it had that effect could you maintain the conditions of the Bank Act? Suppose cheques had not come in to give, as it were, this aid to your fiduciary issue, would you not have had to increase the fiduciary issue?—I do not think so. Why should you? Over the course of, roughly, 70 years that have passed since 1844 this country would have got all the gold it wanted for its notes and there would have

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been no reason for increasing the fiduciary issue. You could not get a big issue of notes against gold in this country, or any country, suddenly, but you can do so gradually. Over the 70 years you would have had gold accumulating in this country—35 millions or 40 millions up to 120 millions or 130 millions—just in the same way as they have in France.

3420 (*Lord Faber*) I gather that the India Office broker sometimes appears to lend money below the market, could you say at all why he does that?—I do not think that he lends it below the market, but he always lends it below the bank rate. He gets, no doubt, the best rate he can, but practically I should say he always, as far as I know from the accounts, lends it, and therefore he has got to take the best rate he can get.

3421 Then it is really that the market know that he has got to lend the money out and will take what they offer him?—That is about it.

3422 If he held off the market and screwed it up two or three times and they did not know whether he was going to lend it or not, would that not help him in the long run to get a better average?—It probably would. If he would not lend below certain rates he would lose temporarily, but in the long run probably he would be recouped.

3423 I think the broker rather gave us to understand that he had a difficulty in lending on the special security which the Indian Government ask for, and that it was rather a tie that the Indian Government demands that security?—That is merely because the amount that he has got to lend being so large the security is not there against it. He would have no difficulty whatever if instead of lending 11 millions he was lending five millions, there would be no difficulty about the security then. It is only because he has got such big sums to lend that there is a difficulty.

3424 There is one rather important question. If India lends money on deposit to the big London banks, do you think it would be unreasonable for India to ask for security?—No.

3425 I suppose that all banks, even the best of them, at times do have to come to the Bank of England to borrow money temporarily, and then the Bank of England gets security from them?—Yes, should a bank borrow.

3426 As regards a central bank for India, I gathered from what you said that you thought the country was perhaps too vast for a central bank to do much good?—I do not say that. I say it is not a question that I can answer as I have no practical experience. What I felt was that you cannot argue from a small country like England, or, we will say, a country like France, and say that what suits that necessarily will suit India. I will not go beyond that, because I have not got the knowledge to form an opinion.

3427 (*Sir Robert Chalmers*) You spoke about the Indian balances, or loans, as not being, if I caught your word rightly, good money. You meant, did you not, that it is used for purposes which are rather outside those of the London money market?—It is entirely outside what I call the ordinary English trade requirements. Indian money is no different to Japanese money, or any other money, but it has what I call nothing to do with British trade. It is a thing which is entirely outside.

3428 Then you raised the point that at times it tended to be lent cheap, and that was raised also by Lord Faber's question recently. Therefore, you concluded that those balances being in London tended to be detrimental to the Bank of England rather than beneficial?—That they have been loaned out in this way in London undoubtedly is so, but only at times, in the ordinary course of business they do not make any difference one way or the other.

3429 You do not agree then at all with the criticism which is advanced in some quarters that the use and location of those balances in London is a boon to London and a boon in proportion to the size of the balances?—It might be held that it is a boon to the

trader by lowering the rates of discount, but it is not a boon from the Bank of England's point of view of maintaining the gold reserve of the country.

3430 Which would mean the ultimate financial condition of the whole Empire?—We, rightly or wrongly, have taken upon ourselves the duty of maintaining a gold reserve in this country, and anything which conflicts with the action which we consider necessary at times—and it is necessary at times to stiffen rates to maintain that reserve or to increase that reserve—necessarily conflicts with the bank. I do not mean to say that it always conflicts with the bank, but it does at times.

3431 Take the case of the Gold Standard Reserve you said that that should be kept in London?—I said such portion of that Gold Standard Reserve as is accumulated for the purpose of maintaining the exchange. I believe the Gold Standard Reserve is used for other purposes—at least, it has been, but that is its main object. In so far as that is accumulated for exchange, that gold should be held in London rather than in India, because you would have to send it over to London if it is going to be used, and therefore you may just as well hold it here.

3432 Do you take that view having regard to the interests of India, and without any reference to the possibilities of its being of any use to the London market?—Absolutely.

3433 You are looking exclusively to India?—I am looking at it exclusively from the Indian point of view.

3434 You went further, I think, and said, as regards that amount of the Gold Standard Reserve which is held in securities, it might be a distinct menace to the London money market?—If those securities had to be realised in a crisis.

3435 Whereas any gold here would be earmarked, and would not be a danger, because it would be outside the metallic reserve which is maintained by the Bank of England?—It would be absolutely outside that.

3436 As regards the coinage of gold in India, there would be no coinage in India if there were a coinage charge imposed in India, is that not so?—I do not know.

3437 I am asking you for your opinion. If you can get gold minted free in London, would you get it sent to the Indian mints if there was a coinage charge?—Not if the coinage charge exceeded the amount which you have got to pay for freight and the other charges to get that gold out there.

3438 Now, as to the currency notes and the fiduciary portion of the fund in India. The conditions of the issue department of the Bank of England restrict the bank to investment in certain very clearly defined securities, I believe—I am simply giving the Bank of England as a comparison?—Are you referring to the fiduciary portion of the Bank of England?

3439 Yes?—I believe that there are no restrictions as regards what we should invest in for our fiduciary issue.

3440 As regards the form of security that you put your money in, are you not limited?—There is nothing in the Act which restricts the bank. We have always invested in British Government securities, or securities guaranteed by the British Government, but I think I am correct in saying that the bank has done that because they thought it was a right thing for them to do, and that they are not restricted by law from any investment. You are raising the question of what I call the strict legal power, are you not?

3441 Yes?—I would not like to give an absolute opinion without referring, but my impression is that there are no restrictions.

3442 Has the bank, so far as you are aware, ever contemplated investing part of the money belonging to the fiduciary portion in such things as trade bills or in advances to bankers?—No.

3443 It has never been contemplated?—Never. The profit on the fiduciary issue, as you are aware, goes to the country and it does not go to the bank.

3444 So you have never contemplated it?—Never—we should not dream of it.

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3445 A proposition was made before the Commission that in India a portion of the fiduciary investment should be in the form of advances to banks for short terms, are you prepared to express any opinion on the policy of that proposition?—Do you mean without security?

3446 No, not without security, but on Government securities deposited?—I should like to think that question over before giving you a definite answer. That would be in a sense merely an increase of its fiduciary issue, would it not?

3447 No, not an increase but a substitution. I will express it, as I understand the proposition, in the terms of this country. You would not buy consols but you would lend to a bank on the security of consols for a short term out of the fiduciary portion of the issue?—I think there would be objections to that, certainly there would be theoretical objections to it, and I am rather inclined to think there would be practical objections. If you like to put the question in writing I will consider it. That is mixing up what I call issue with banking.

3448 *Præmâ facie* you are not attracted to it?—*Præmâ facie* I am not in favour of it.

3449 You are not attracted to it, I said?—No. I am not attracted to it.

3450 (*Sir Ernest Cable*) In reply to Sir Robert Chalmers just now I think you admitted that the lending out of India's balances was a benefit to the London market?—I admitted that the lending of large balances here puts down the discount rate, and usually is a benefit to the trader while it goes on, but the liability to have that money withdrawn is not a benefit to the market.

3451 And, of course, it is an unmitigated benefit to the Government of India to be able to lend out these balances here which they are unable to do in India?—They are getting interest undoubtedly on their money, but as to whether that pays them or not you must ask them the question, not me, because they have had to pay something for raising that money.

3452 I am talking of the superfluous balances—such balances as we have?—Yes, if it is merely a question of getting interest on superfluous balances. But I should like to ask this question. Is there any similar system in India—I am asking for information—to what we have in this country, under which surplus revenue goes to the redemption of debt?

3453 (*Chairman*) There is no system exactly comparable to ours, but as I understand our witnesses, the surplus revenue is either used in the extinction of existing debt, or in the prevention of fresh borrowings. You have to start with the fact that the Indian Government is, as you say, continuously borrowing for reproductive or for capital expenditure, and the surplus, being used to redeem such short-dated securities as you spoke of in a part of your evidence, goes to prevent the amount of the fresh borrowing being as large as it would otherwise be?—My difficulty is to see why it is necessary for the Indian Government to have such big balances permanently here.

3454 (*Sir Ernest Cable*) I was going to carry that one point further—that it not only benefits the London discount market, as you suggest, and also the Government of India in the way of revenue, but that in addition the reduction in the discount rate in the London money market does benefit the Indian trader, because it stimulates trade. There is therefore a third benefit to India judged as a whole, you would admit that, I think?—Low rates of money undoubtedly always stimulate trade, but it does not necessarily follow that there is a benefit, you have got to look at the ultimate result of these things. If you have large sums of money lent in this country which are liable to sudden withdrawal, then they are an upsetting feature, and probably the result of that upset may entirely extinguish the previous advantage.

3455 With regard to the State bank, I think you made use of the expression that the time is not ripe for it, do you mean to suggest by that that at some later date it might be advisable?—I think what I stated was that the fact that it had been before the Indian authorities and not adopted ever since the Fowler

Committee showed that in their opinion the time was not ripe. As I said before, speaking for myself, I have no special knowledge as to this question. I discussed it a great many times with Sir Edward Law, whom I knew very well, and I think on the whole he was in favour of it, but I think he was rather of opinion that the time was not ripe. Mind you, I am not giving you my opinion, because I have not got what I call a formulated opinion, it is only the opinion of those who have been out to India. I can tell you what is done here in London, and I can give you practical views of our own money market, but the other side, no, because I have not got the experience.

3456 You could perhaps give us your opinion as to whether, as India is developing and growing in resources, it might not be a very much more difficult project to carry out, say, in 20 years' time than at present?—It seems to me that you have got the nucleus in India of a central institution, because you have got three Presidency banks. I suppose it is quite possible to join those up if it is thought desirable to do so, and then you have got your one central institution. But there is a distinction in my mind between a State bank and a central bank. The State bank presumably means that the whole of the capital belongs to the Government, and therefore it has got to be run by Government, because the Government will not hand over a large sum of money to private individuals to run for them. Whether the conditions allow of a separate central institution, as you have got in this country, I cannot say. I can only say that, as far as a State bank goes, you have got the nucleus of it in your three Presidency banks.

3457 You expressly doubted also whether the State bank or the central bank would be a paying proposition. I should like to ask you as a banker of eminence whether it would be legitimate in a new bank of that sort to have a portion, perhaps a large portion, of its capital in debentures which might make the share capital quite a paying investment?—But you have got nothing to issue debentures on.

3458 On the capital as security?—A debenture is only a debt, and there is no security. What you want in India is a bank big enough to give security for the Government to bank with it.

(*Sir Ernest Cable*) The Agricultural Bank of Egypt has a debenture debt, I believe?

3459 (*Lord Faber*) But that might be founded on a particular class of security—the land?—An agricultural bank probably could issue debentures, that is to say, a mortgage upon something in its possession, but an ordinary bank has nothing. A debenture proper ought to be a mortgage, and therefore it is a liability, not an asset. I do not see how that is possible.

3460 (*Sir Ernest Cable*) Debentures are a liability, and so is capital a liability, it is merely another way of putting it?—I beg your pardon. Capital is a liability undoubtedly, but the shareholder is responsible. The debenture holder is a creditor of the concern, the shareholder is part of the concern itself. The two positions are totally distinct. I am putting it this way—if I am a shareholder in the concern, I am responsible to the debenture holders.

(*Sir Ernest Cable*) They have a prior claim certainly.

3461 (*Lord Faber*) To put it in another way, the debenture man comes first, and he has got to be paid and all the capital has got to be exhausted to pay him?—That is so.

3462 (*Sir Ernest Cable*) You made use of the expression with regard to India's gold reserves that she should bear her own burden, I suppose you mean by that that India alone would benefit by those gold reserves. I put it to you whether in a time of crisis the whole Empire would benefit by the stability conferred by those gold reserves of India?—I do not see exactly where the benefit comes in. What I say is, India should run its finances, so to speak, by playing the game off her own bat.

3463 (*Mr Keynes*) When you expressed the rather paradoxical opinion that the Indian cash balances in London were disadvantageous, were you speaking



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narrowly from the point of view of the Bank of England, or from the point of view of the whole of the London market?—I was speaking from the point of view of the Bank of England, and I hope I made that clear.

3464 Your remarks would apply equally to all international banking on a large scale, would they not?—To all international banking on a large scale where a withdrawal of that money would affect the conditions of the money market.

3465 I can understand that if London were to cease to be an international money market the life of the directors of the Bank of England would be a less anxious one, and you are merely stating this as a particular application of that?—I am asked here to give the view of the Bank of England, and I am giving you the view of the Bank of England.

3466 And the view of the Bank of England is that any increase in the extent to which London is an international money market makes their time a more anxious one?—Any increase in the volume of transactions which pass through London for which the London money market is responsible, makes the maintenance of an adequate gold reserve here all the more important.

3467 But you would not deprecate the extension of England's liabilities in that way, would you? You would not wish London to be less an international money market, would you?—No, I want to see England maintained as the international money market, and that it should have the position it holds to-day.

3468 Then you would be sorry rather than glad if India was to give up holding its balances here?—From the point of view of the Bank of England I would rather they were what I call kept within more moderate limits, that is all.

3469 From the point of view of the position of the money market, you would be sorry?—I should not be sorry, it is merely a question of size.

3470 Would you be glad?—From the point of view of the Bank of England, from the point of view that London should not be liable to be drawn upon for very big amounts, I should be glad if the Indian balances were kept within more moderate limits. They rise to, I believe, 18 millions altogether. I am not clear what was done with the 18 millions.

3471 (Chairman) I think we have had it in evidence that the 18 millions, those very high figures, were due to what it is hoped may be found to have been rather exceptional circumstances, and partly also to under-estimating the revenue?—I quite agree, but I do not know what was done with that 18 millions here. As far as I can turn it up at the Bank, the loans through their broker have never much exceeded 11 millions, I suppose the balance all went to the banks, and there was no security for it.

3472 There were loans to the banks as well?—We check all the securities at the bank for the India Office, and therefore, we know the amount of the securities. I know the maximum amount of securities deposited at any one time, and I know that the maximum amount of loans to what I call the market have not exceeded something between 11 millions and 12 millions, that is all.

3473 (Mr Keynes) I only wanted to get the point clear that there is nothing peculiar to India about this, and that in general you deprecate London doing international banking business on a very large scale?—No.

3474 (Chairman) I think you did not deprecate London doing international banking business on a very large scale, but you said there was a danger if these large amounts were suddenly withdrawn?—I say that that is a danger which, if it is possible to avoid it, it is well to avoid, but as long as London remains the international money market it has got to shoulder the burdens as well as the advantages of that. Mr Keynes' view apparently is that I deprecate London being an international money market, I absolutely correct that.

3475 (Mr Keynes) I understand there is a disadvantage, but I do want to have your opinion as to whether on the balance it is not an advantage to London to put itself into this position. It makes the problem

of the reserves more difficult, but is it for that reason to be deprecated on the whole?—My answer to that is that you have got to shoulder your responsibilities, and on the whole, it is desirable that London should remain the international financial centre of the trade and commerce of the world. What you are dealing with on this Commission is the question of Indian finance, and you are not dealing with anything more.

3476 Your second reason for rather disliking these large balances was that they sometimes had the effect of forcing the market rate down, I suppose that is true of all large lenders in the market?—That is right.

3477 They have not had a different effect in that way from any other large lender?—No.

3478 So that there again, from the the point of view of the market as a whole, you would not deprecate it?—No. It is quite desirable that London should have its lenders as well as its borrowers, it must have them.

3479 The Chairman asked you your opinion as to how far gold in circulation was available to a foreign drain, and I think you expressed the opinion that it was of some value?—Yes, I expressed the view that gold in circulation is of some value, because, if you get a famine, gold will not be so much wanted, and therefore it will come back to what I should call the bankers, and then it is available. What I stated was that it is better for India to hold gold which is taken, so to speak, at its face value, than to have it in rupees which have got to be melted and sold at their bullion value.

3480 When you gave that answer were you imagining a case in which India had had anything but gold, or in which gold was perhaps a fifth or a quarter of the circulation?—I was not imagining anything. I was only giving you the difference between having a gold circulation and a silver circulation.

3481 Do you mean by a gold circulation one in which nearly all the circulation is gold, or one in which about a fourth or fifth is gold?—My reply was quite independent of the proportion of the circulation.

3482 Then your answer applies even in the case where gold is a fourth or a fifth?—Certainly.

3483 Do you think that when money is returned from circulation it will be the gold rather than the rupees, even when the gold is only a small proportion?—They might come back in equal proportions, I cannot tell you. That is a question you must ask of somebody who has got Indian experience.

3484 Therefore, a certain proportion of the gold in circulation would not be available. The gold would not be available to anything like its full amount in a crisis, and you would not expect, if a fifth of the circulation was gold and a fifth of the currency came back in a time of crisis, that very much of that fifth would be gold?—I should imagine that if a fifth of the currency was in gold and four-fifths were in silver, it might be returned a fifth gold and four-fifths silver. I should say—but I do not know, as it is not a thing which I do know—that probably gold would come back quicker than silver, but that I cannot tell you. Gold is more used, I imagine, by those people who are European managers, and so on, but I really do not know, and it is not a question, I think, that I should answer. It is a question on which you should ask someone who has a knowledge of Indian conditions.

3485 You have not any opinion, therefore, as to whether in Indian conditions, gold, in circulation to the sort of extent I have suggested, would be available, and you did not intend to be expressing an opinion on that?—I only expressed the general opinion that if you have got a large amount of gold in circulation and bullion is required for export, gold is a better thing to export than silver, which has got to be melted down.

3486 With a large amount of gold in circulation, you say?—I am not troubling about the proportion of the amount in circulation.

3487 In the matter of the note issue, I understood that you are nervous about increasing the note issue lest at some not distant date a large number of the inhabitants of India should use cheques?—I am not nervous about anything, and "nervous" is not quite

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the correct expression to use. I was asked my opinion as to an increase of the fiduciary issue, and I gave you the point that if cheques are largely introduced into the banking system in India, the note issue would not increase in future years as rapidly as it has done in the last 20 years.

3488 Then you did not mean to be expressing an opinion that that was likely to happen within the lifetime of those who are now alive?—I do not express any opinion on Indian matters, because I can only give you what is the experience here in London.

3489 The Chairman put the question to you that if cheques had not been developed in England as they have been, and if we had used notes as they do in some foreign countries, the system of note issue by the Bank of England would have had to be modified, I understood you to say no, and that we should have gone on just as they have in France?—Yes, that is my opinion.

3490 But you would not maintain that the method of regulating the note issue in France is the same as that in this country?—The conditions of the two countries are distinct, but the method of regulating the fiduciary issue of notes in France is under definite Acts of Parliament, just the same as ours. Of course, the two Acts of Parliament are quite distinct.

3491 And their provisions are of quite a different kind?—That is so, so they are in Germany.

3492 If in England notes were to be used on a large scale, and the Act were not altered, we should have to hold gold almost up to the full amount of the notes?—You have to hold gold to day for every note issued above 18 millions odd.—I can give you the exact figure if you want it.

3493 But that is not the case in France?—That is not exactly the case in France, but I am not prepared to give the Commission any information on that without referring as to what the exact conditions of the note issue in France are.

3494 Is there any note issuing country in the world which regulates its note issue on the same system as the Bank of England?—I think not.

3495 So that there is some experience for thinking that in a note issuing country some different system is desirable?—Of course, I think ours is the best, therefore I do not think any different system is desirable.

3496 Do you think that the business of the world could be done if all banks adopted the Bank of England system?—The business of the world would be done. Whether it would be done on the present scale is another matter.

3497 Sir Robert Chalmers asked you your opinion as to holding some part of the cover for the note issue in bills. Is there any country in Europe except England which does not use bills as a part cover of its note issue?—I cannot tell you.

3498 You do not know of any country which does not use bills?—I am not sufficiently conversant with the conditions of all the countries in Europe to be able to answer that question, but I can get the information if you want it.

3499 You objected to the Secretary of State speaking of having cash at short notice. Was your objection purely to the terminology?—It was merely to the terminology that is all.

3500 Your objection was purely to the terminology, and you do not maintain that he ought not to have money in that form?—No, the objection was purely to the terminology.

3501 So long as the money market is solvent would you hold that money at short notice is from the point of view of the Secretary of State, as good as cash?—I do not think you put the question quite correctly. You say as long as the money market is solvent, you mean as long as the individual members of the money market to whom the India Office lends money are solvent.

3502 Yes, that is so, as long as they are solvent, then the money at short notice is as good as cash, is it not?—No, certainly not. It is not cash, and therefore it is not as good as cash, but from the point of view of investment purposes or proper security it is just as good as the investment in the security itself.

3503 If money is lent for four weeks and the man to whom it is lent is solvent, then at the end of the four weeks it is as convenient to the Secretary of State as if he had held the same amount in sovereigns?—You have given the premise that the gentleman is solvent.

3504 Yes?—But that does not always prove to be the case.

3505 (Chairman) Even then the Secretary of State has to wait for the four weeks?—Yes. I made that remark because—you can get it in the India Office, and it is not for me to give it to you—there have been, I know, within recent times, two failures in which the India Office did not get their money back.

3506 (Mr Keynes) I was wishing only to arrive at this distinction—from the point of view of the Bank of England and the market as a whole, they would obviously be in a more comfortable position if the Secretary of State had real cash rather than money at short notice but it may make more difference from their point of view than it does from his point of view?—That is all dealt with by the amount, whether it is to be five millions more or less that you are going to hold in the Gold Standard Reserve. These loans at notice are minor factors in the situation.

3507 There are one or two points of detail arising out of some evidence we have had before us that I should like to ask you about. We were told that only such securities are accepted against loans as are bearer securities, or are inscribed at the Bank of England and that the reason for that was that the authorities of the Bank of England had no means by which they could satisfy themselves that the transfer had been made unless it was a security of that class. Do you think it would be possible to have a simpler machinery so that stocks inscribed at other banks could be taken?—No. If you mean as far as the India Office is concerned, that is a question they must answer themselves, not I. You cannot have simpler machinery for the stocks inscribed at the Bank than we have got now.

3508 That is not the question I was asking. We are informed that the cashier to the Bank of England would not be satisfied that the transfer had been made into the name of the Secretary of State unless the stocks were inscribed at the Bank—that if they were inscribed at some other bank he could not satisfy himself of the fact?—No, he could not because he would have no means of knowing that the transfer was in order. At the Bank of England he can go over to the chief accountant and satisfy himself that the transfer is in order but at any other bank he cannot do it, he cannot walk into another bank and ask to see the books.

3509 (Chairman) As a matter of security, would you consider it adequate if in such a case you received from the bank at which the stock was inscribed a certificate that it had been transferred to the Secretary of State?—That is a question of which I should require notice. It may be a very technical thing, but that I could not tell without looking into it. All those questions about transfers are very technical. I imagine that probably the Bank of England would accept the guarantee of that bank but I do not know whether the bank would guarantee, however that is another matter.

3510 (Mr Keynes) There are two other points of a technical character which I should like to raise, at any rate, at this stage. The first is with regard to the management of the Rupee Debt. We were told that you maintained a separate office for that purpose at the Bank of England, that the amount of the debt is now much less than it used to be—about seven millions—and that the charge for that management works out at much more than 1,000l per million. What are the reasons which make it necessary to have a separate office for the Rupee Debt as opposed to the other debt?—That is a question on which I should be willing to get you the answer, but I cannot answer it off hand.

3511 The Accountant General told us that there was an undertaking by which the India Office keeps a minimum balance of half a million at the Bank of England, and that they in fact often have to keep a

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good but more there, and cannot lend up to the hilt, because the Bank of England will not allow them to strike their balance of the half million at four o'clock. They have made application to the Bank of England to allow them to do that, they say, but the Bank of England do not agree to it. Can you explain to us the reasons for that?—I ask for notice of that question. That is a technical matter which I could not answer without notice.

3512 (*Lord Kilbracken*) You said, and I can quite confirm you, that the relations between the Secretary of State in Council and the Bank of England have been, apart from some recent incidents, altogether cordial and satisfactory?—Yes.

3513 Without going into any details, we may assume certain things have lately been done by the Secretary of State in Council which, from the point of view of the Bank of England, were not altogether advisable?—Only in reference to one matter.

3514 Do you consider these to have been in any degree the result of the financial methods and organisation of the India Office, or, as we are none of us infallible, were they simply a mistake on the part of those who happened to be then administering the system?—I think it was a mistake which, in my own opinion, ought not to have arisen.

3515 It may be assumed for the purposes of argument that it is a mistake?—It has got nothing to do with the general, what I may call broad financial questions of the India Office.

3516 It is a sort of mistake which is a result of the personal equation, and might occur in any conceivable system?—I think so. Of course, my strong objection to that matter was that it put a considerable strain upon the confidential relations between the bank and the India Office as I informed the Secretary of State, because it is difficult to maintain the freedom of confidential relations where one party have for six months been interviewing the other and have not been frank, by keeping something up their sleeve because for reasons of their own they wished to do so. It was a breach in the confidential relationship, but it has got nothing to do with this inquiry, I think.

3517 I believe that no similar mistake affecting the relations between these parties had occurred for very many years?—I do not think it had ever occurred before.

3518 Have you any suggestions to make, either in consequence of this or apart from this, for the improvement of the India Office methods as seen from the point of view of the Bank of England?—No, I do not think so. I should think it is a kind of mistake that is not likely to occur again, I hope so.

3519 (*Sir Shapurji Broacha*) The Gold Standard Reserve is established to maintain the par of exchange at 1s 4d, should not, therefore, the safety of this rate of 1s 4d be made as absolute as possible, so that at no time could it be disturbed?—Undoubtedly.

3520 And for that purpose gold is much safer than securities?—Granted.

3521 In 1907-8, although there was a partial famine, the Secretary of State had to use 15½ millions to maintain exchange. The American crisis was in 1907, and the realisation of securities was in 1908, when Consols were at 88 and money had gone to 3 per cent. Supposing they had had to realise those securities, not in 1908, but during the great American crisis of 1907, would it not have been much more difficult?—I think I told the Chairman that had the financial storm-centre been in London those securities might not have been realisable at all, or, if at all it would have been at a great sacrifice, and not only would there have been that great sacrifice, but it would have had a most prejudicial effect upon the financial world all round.

3522 It would have disturbed the great money market?—Yes.

3523 Suppose there were a great war in which England were involved, and there were panics in the markets of the world, as well as a famine in India, and the Secretary of State wanted money, if you had bankers' bills would not that be creating a little

disturbance in the money market?—I do not quite know what you mean by bankers' bills.

3524 I am thinking of the Secretary of State having liquid money which is not in gold but in short dated bills, or bankers' bills, or whatever they may be called. I think you mentioned in reply to the Chairman that the Secretary of State has 1,700,000 in short-dated bankers' securities?—In the Gold Standard Reserve they have got 1,730,000.

3525 That is not really gold, is it? It is bankers' securities?—No, that is actual gold.

3526 Even if you have money at call, then the calling up of that money at such times would create a sort of fear in the money market, would it not?—Undoubtedly.

3527 But if you had gold to give out, that would help the market?—Yes. Taking difficult times, if India has to draw, and has to pay for those bills in gold, that undoubtedly would be an advantage to London if India has got to give out that gold against its drawings. But the Gold Standard Reserve and the question of the India Office balances are two totally distinct things.

3528 I am not talking of balances, I am only talking of the Gold Standard Reserve, which could not be used for any other purpose than the maintenance of exchange at the par of 1s 4d. India has a greater power of absorbing gold than many other countries, owing to the excess of exports over imports. She has taken about 27 millions this year, and she took about 23 or 24 millions last year, and about 18 millions the year before, and I do not think any country has taken so much gold on balance during the last three years?—Yes, but is it not probable that Indian imports of commodities will increase?

3529 I am talking of the present situation?—I understand, but if you want to found an argument on it you have got to look at the probabilities.

3530 If India were allowed to accumulate gold in the Gold Standard Reserve to the extent of 25 millions or 35 millions in solid gold, would that not be very helpful to the Empire at a time when we had a war, a financial crisis, and a famine all coming together?—I quite agree it would be helpful to have more gold, and the original idea of the Gold Standard Reserve was that the whole of it should be in gold.

3531 Would it not also obviate the difficulty of going to a foreign bank to borrow three or four or five millions if the Secretary of State had those millions in solid gold which he could supply on the credit of India at the Bank of England?—If might or it might not. Do you mean to say that the Bank could borrow from the Indian Government?

3532 Yes?—I should not like to alter our system in this country.

3533 I am talking of the time when the standard gold reserve balances of India are in liquid gold, and perhaps the Bank of England may have to stop payment in gold. Would it not be very useful then that that gold should come in for use? Remember the Secretary of State is master of the Indian finances, and the Government of England is the master of the Secretary of State?—Yes, but I do not want the London money market or the Bank of England to be in any way influenced by the fact that it has got a lot of earmarked gold.

3534 It is earmarked in a way for the maintenance of exchange?—That is so. I do not oppose in any way the Gold Standard Reserve being invested in gold solely, but I quite understand that the Indian Government wish to make some profit out of it, and that you only want to accumulate gold sufficient for practical purposes. The Indian Government have at last realised that they ought to hold some gold, but they had not done so up to last year.

3535 A large amount of solid gold would save us, or put us into a position of absolute security for the maintenance of exchange in the worst of times, even when we had war, famine, and panics all coming together?—To the extent that it is such a sum as is more than India requires in any one year.

3536 You have been talking of a State bank, and I understood you to say that the Bank of France does

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business efficiently, but it is a small place to which it is attached, so does the Bank of England do its duty efficiently, because it is a small place to which it is attached. Suppose the Bank of England or the Bank of France were given the duty of doing the work which the Bank of Germany does, the Bank of Italy does, the Bank of Russia does, and the Banks of Norway, Sweden, and Belgium do, would you say that the Bank of England solely or the Bank of France solely could do that vast business as efficiently as they now do it for England or France, as the case may be?—I am afraid I do not quite follow the question.

3537 I mean to say, if the Bank of England were the Bank of Europe, and had to do all the business of the Bank of France, the Bank of Italy, the Bank of Germany, and all the banks of other countries, do you think it could be so easily performed as it is now performed for this country alone?—That is a hypothetical question which it is practically impossible to answer.

3538 (Chairman) I think what Sir Shapurji is suggesting is the difference between the area covered by India and the area covered by England. It is possible for one bank to do the work of the Bank of England in England because England is a country and not a continent, but it would not be possible for one bank to do the same work over a whole continent?—I do not think it is possible, so to speak, in the same way, but I should not like to state that it could not manage currency matters.

3539 (Sir Shapurji Broacha) I am talking of the whole business, currency, financing, lending money to industry and commerce, all the vast business that the Bank of France does now, even to discounting 300 franc bills, or 125 franc bills, or even 5 franc bills. If she were given the management of the whole of Europe, would she be able to manage that work as efficiently as she manages the work now for France alone?—I should think not.

3540 I ask you because there is more similarity between the people of this country and the people of Italy and the people of Germany than there is between the banking classes in India, and India, I say, is as large as Europe?—Your inference is—

3541 That it would be too large a business?—That a State bank or a central bank in India could not do it efficiently.

3542 That is so?—I carefully avoided giving a pronounced opinion, because I said I had no practical knowledge of the conditions in India.

3543 There are now in the Bank of England, as I see by to-day's news, 18 millions belonging to the Government, the municipalities, and other classes, all under the control of the Government, if, instead of the Bank of England holding 18 millions of Government balances, the Government were to put them into vaults at Whitehall, would not the public complain that they were being deprived of the use of the money?—Undoubtedly. The fundamental theory in this country is that money collected by taxation immediately goes back to the use of the country.

3544 If the Government of India had 25 crores or 18 millions or 17 millions sterling in the Treasury vaults, and did not lend that money out—that is, if all that money were swept in and not given out, would not that make the money market more difficult?—That is an Indian question, is it not?

3545 I am putting it in the general way of the world?—In the general way of the world, yes.

3546 Then is it not the fault of the Government that the money markets are dear at one time and cheap at other times? We were told yesterday that you cannot lend money to day in India at 2 per cent on Government paper, and yet sometimes it rises to 8 per cent. If that money were locked up within the walls of Government buildings, then in the case of the money market in India becoming dear, should the Government be blamed for it or not?—I have no opinion to give because I do not know what happens.

3547 I suppose you have no idea, if there were a State bank or a central bank established in India, where it should be placed?—No.

3548 You have told us that Indian money here, as it is not of a permanent character, is not very helpful. At present I think you said there are 11 millions of the Secretary of State's money on loan in London?—It may be more. I am only telling you what has been lent at the present moment by the Government broker.

3549 But that cannot be compared to Japanese money, because the Indian money is bound to be spent in this country sooner or later. Japan might call up her money, and Russia might call up her money, but the Indian money must be used here solely. It gradually goes out just like a banker's or a merchant's fund for goods, or something like that, so it is not the same kind of money that the Japanese money is, which would disturb the market when it is suddenly taken away in large bulk?—That may or may not be so. If the money is wanted in India I imagine it would be sent to India.

3550 No, it is not money which can be in any way dangerous to the London market, because it is London's money in one respect—at any rate, it cannot be as dangerous as Japanese money or Russian money?—I think that is true. The control of the money after all is in this country.

3551 I think Indian credit has gone down in this country in the last two years about 10 per cent, and the 3½ per cent Sterling Rupee Loan I see is now about 8½ or 8¼?—Those are figures which can be very easily worked out.

3552 I think the present is a time when you cannot borrow much money for India if you want large amounts of a sudden, as at one time the Secretary of State could have done?—My own opinion is that the feeling about Indian loans, and so on, is that they are a little bit too much under Government control. If there were bigger facilities given for private enterprise in India, India would probably get money more readily. I am only giving you what I call the current opinion, I have no opinion to offer myself.

3553 If loans were limited to a fixed period I do not think the same difficulties as I have pointed out to you would obtain?—That is what I have said.

3554 (Sir James Begbie) Speaking about the Gold Standard Reserve, I understood you to say that you think it should be held in London, because, if not held in London, gold would have to be remitted home to be drawn upon from India?—That is in the case in which the Gold Standard Reserve has got to be used for the maintenance of exchange.

3555 But there is no reason why a draft should be drawn in India on London to maintain exchange, it would be the same thing if gold is kept in India and issued in India, would it not?—I do not think it would have the same effect on exchange if the gold were held in India and issued in India.

3556 Not if it were issued in India for export?—For export, yes. As I have said, the reason for holding the gold here is that drafts presumably will be drawn on London, and therefore that export of which you speak simply means that the gold will have to come to London. I do not think, for instance, that India could draw and sell bills on Australia. I am looking at it from the practical point of view. When you sell bills in Calcutta I think they are drawn on London, and while London retains its position as the financial clearing house of the world, bills will be drawn naturally on London. Therefore, if, for the purposes of maintaining exchange, that gold has got to be used, the gold will have to go to the place on which the bills are drawn.

3557 If bills are drawn?—Where you maintain exchange it will be by drawing bills.

3558 The usual method is to use gold for international balances, is it not?—The usual method is, when exchange gets up to a point at which it is cheaper to ship gold, that gold will go. The question is one simply of freight and insurance, and when the exchange rises to a point at which there is a margin above the cost of freight and insurance, gold will go.

3559 Now I want to ask you one question with regard to the silver purchases of last year. We have

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had it stated in evidence that the silver purchases last year, totalling over seven millions, were effected from the India Office balances, which may have been replenished from the proceeds of the Council bills sales, although the Secretary of State had the option of using the part of the Indian Reserves which is in sovereigns. The question I want to ask is this: Would it have made any difference to the London market if the purchases last year had been carried out by the use of sovereigns taken from the Indian Reserves rather than by money taken from the India Office balances?—The ultimate result would have been much the same. Do you mean to say that if they had paid out two millions of gold, for instance, and they had not sold the Council bills, the Indian banks would have taken that two millions and sent them to India, is that what you mean?

3560 No, I am talking about the way the silver was financed. It was financed, I understand, by payments from the India Office balances, whereas the actual gold reserves might have been used for the purpose?—Are you referring now to the Paper Currency Reserve?

3561 Yes, would it have made any difference to the London market if the actual gold had been used?—I cannot tell you. It depends upon the time of the year at which it was let out—whether the gold was wanted here or not. All shipments of gold here, I mean all increases of gold at the Bank of England—merely put the rate of discount down. It depends a good deal upon the time of the year that gold comes in as to the effect it has upon the money market.

3562 The purchases took place over about six months, I think, of last year, so that the payments would have been spread over, say, June to October, or November. Would not the London money market have been bettered by the receipt of actual gold rather than having to pay out the money from the balances of the India Office?—Are you dealing with five or six millions?

3563 It came to seven millions altogether, I believe?—Do you mean that they had five millions, say, of the Paper Currency Reserve, and the question is whether they should have paid out that gold instead of paying for it by Council drafts?

3564 Yes?—Five millions of gold taken into the London market would be exactly the same as having an extra five millions shipped from South Africa. That of course tends to keep the rate of money down. But what the practical result would have been, I do not think anybody could definitely say.

3565 (Mr Gillan) I should like to ask you one question about this matter of the gold mint. You said that if a gold mint were to be established in India you would prefer that sovereigns should be coined?—I gave you that as my own personal preference.

3566 I quite understand that preference, and I merely wish to ask if there is any very substantial drawback in your opinion in a smaller coin, say a 10-rupee Indian coin, being minted?—Personally I know of none. My reason for saying that I personally prefer the sovereign is that the sovereign is used practically throughout the British Empire, and so long as the Indian Empire remains a portion of the British Empire I think it is a very desirable thing we should have one gold standard and not a considerable number.

3567 Why I asked you this particularly was that we have been told sometimes that a special Indian coin would, perhaps, go to a discount or would be of very little use in foreign exchanges, and so forth?—I do not think, as far as this country is concerned, it would make any difference what it was, because gold is not taken at its face value in international markets, it is simply taken by weight, and it does not make any difference to the weight of the gold whether it is a sovereign or whether it is a mohur.

3568 (Chairman.) It is sold by weight and fineness?—By weight and fineness solely.

3569 (Mr Gillan.) That is why I asked you for your opinion?—People always think because a million

sovereigns have been shipped that they are taken as a million sterling, but that is not the case at all. If you go to the bank for 100l they will not count it out to you, they will simply weigh it out.

3570 With regard to the Gold Standard Reserve, you said, in answer to the Chairman, that the Government of India had recently recognised the necessity of keeping some part of its reserve in liquid gold, and you thought the figure which they had in view, about five millions, was insufficient?—It is insufficient compared with the possible requirements.

3571 With regard to that point, I want to put to you a part of the correspondence on this subject. It may appear repetition, but I put it to you because so much importance has been attached to what was said that I should like to have your opinion. The Government of India suggested to the Secretary of State that a substantial portion of the reserve should be held in gold?—What paper is this in?

3572 I am quoting this from the correspondence between the Secretary of State and the Government of India. It says (see Appendix V, despatch of Secretary of State, No 82, dated 2nd July 1909, paragraph 8, &c, pp 178-9) —“(8) Your second proposal is that a “substantial portion of the reserve shall be held in gold.” (9) The object of this proposal is to ensure “that the reserve shall be readily available whenever “required, even though the necessity should arise at a “time of general financial difficulty in London. There “can, of course, be no possible doubt as to the “importance of this object, but I am not satisfied “that the adoption of your proposal, in substitution “for the present method of dealing with the reserve, “is required for its attainment. As a matter of fact, “I have carefully and constantly kept the same object “in view whenever I have had to decide as to the “disposal of profits on coinage or of sums accruing to “the reserve by way of interest. The plan which I “have followed has been as follows—(1) To hold a “considerable portion of the reserve in the form of “high class securities with a near date of redemption, “because cash can always be obtained at the shortest “notice, by sale or loan, for such securities in the “event of their realisation before maturity becoming “necessary. (2) To hold in addition such an amount “of stocks yielding a higher rate of interest (namely, “Consols) as I can count on being able to sell in time “to meet all requirements that should be met from “the reserve.” The Secretary of State adds, “As my “object has been precisely the same as that to which “your proposal is directed, the chief practical question “that can be raised (apart from those to be dealt with “in paragraph 10 below) is whether I have succeeded “in attaining it. I venture to think that the experience of 1908 shows that the answer to this question “is in the affirmative.” Then, at the end of that paragraph, he says, “I recognise, of course, that in “times of prolonged depression of Indian trade, “especially if accompanied by other adverse conditions, the realisation of securities to the amount “required to support exchange would require care, “but the operation ought not to be beyond the capacity “of the Secretary of State in Council and his advisers, “and I accept the responsibility for carrying it out on “occasion arising.” With regard to that experience of 1908 on which the Secretary of State was then building, I understand your opinion is that matters were much easier for him because the storm centre was in America and not in London?—Undoubtedly.

3573 Perhaps to that extent it would be advisable to modify any judgment that is drawn from the experience of 1908? You see he is building on that, for he says, “I venture to think that the experience of “1908 shows that the answer to this question is in “the affirmative.”—He means to say that they can be sold, does he?

3574 That he succeeded in doing it in 1908?—I give you the answer, which is a very definite one, that if you have India in the position where it is necessary for her to sell large blocks of sterling securities in London the suggestion is a dangerous one. Therefore—I have not seen this letter before—I should not endorse this recommendation of Lord Morley a. You see he

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says that he accepts the responsibility for carrying it out on occasion arising. The occasion, of course, may never arise. The occasion which I have got in view is the simultaneous existence of two conditions—one is a financial difficulty in London, and the other is famine or drought in India. Those two conditions may never arise simultaneously, but the occasion may arise, and when you are considering what it is desirable to formulate as what I may call the fundamentals of the financial policy of a great empire like India, you should not shut your eyes to a possibility.

3575 In fact, on occasion, the responsibility which this despatch accepted might prove to be too heavy?—It might be found that it was based upon—

3576 (Chairman) A miscalculation?—Yes. I hope the Commission quite understand that any information we can give you from the Bank, like replies to those rather technical questions that Mr Keynes put to me, I shall be most happy to have drawn up and sent to you, or to the member who wishes to have it.  
(Chairman) Thank you, we are very much obliged to you.

The witness withdrew.

Mr HARRY MARSHALL ROSS called and examined.

3577 (Sir Robert Chalmers) Do you come here today to represent the Bengal Chamber of Commerce?—Not exactly. I come here by the suggestion and invitation of the Bengal Chamber of Commerce, but they courteously permit me freedom where my views do not entirely coincide with theirs.

3578 Would you be so good as to state to the Commission what your experience has mainly been in connection with this question?—I was a Calcutta export merchant. I was engaged in the export trade for 23 years, comprising a period of 11 to 12 years previous and a similar period subsequent to the mint closure. I was chairman for five years of the Jute Association of Calcutta, and chairman of the Wheat Association for a shorter period. I was also honorary secretary of the Currency Association, which agitated for the closure of the mints, under the presidency of the present Lord Inchcape.

3579 In that latter capacity you have had a large experience of an intimate character in connection with our subject?—I have.

3580 You have been so good as to submit to the Commission a statement of the evidence that you propose to give,\* and I will take you through that to some extent. Beginning with the cash balances, you do not raise any objection, I gather to the plan by which the Secretary of State gets his money across from India?—I raise no objection to that.

3581 Have you anything to say as to the total of the cash balances, joining those kept in India and those kept in London, first, as to their magnitude, is the total too large, in your opinion?—During recent years, it distinctly appears to have been unnecessarily large.

3582 How did the combined balances rise to so large an amount?—Partly through the surpluses of revenue, and partly of course by means of loans.

3583 As to the surpluses of revenue, have you got any remarks to make in elucidation of your view that they are too large?—My view is that the budget estimates of recent years have been unnecessarily pessimistic, and I support that view by reference to the memorandum on the India Office balances, Cd 8619. The seven years comprised in that publication, ending with 1911-2, show that in only three years was a surplus budgeted for, a deficit being budgeted for in four years, and that while the deficits were fairly substantial the surpluses were paltry—331,400l., 46,400l., and 34,000l. The results of those seven years show, on the other hand, a net surplus of between 10 millions and 11 millions sterling. Looked at from the point of view of the seven years, as set forth in those figures, it seems to me that there has been persistent under-estimating, not necessarily intentional but that has been the tendency.

3584 That is a structure on the budget estimates to the extent to which the balances arose from the surplus revenues?—Yes, which necessitated, apparently, taxation which the event has proved to have been unnecessary.

3585 I will come back to that as a last point. The balance is made up not solely by surplus revenue brought across from India to this country but also there have been capital sums raised by issues of loans

and that is a further department creating a large balance?—Yes, certainly.

3586 Given the money in India, do I take it your view is that the Secretary of State is right in selling Council bills freely, with a view to releasing rupees in India, and preventing accumulation in the hands of the Government of India?—Unquestionably.

3587 That tends, in your judgment, to prevent the detriment of the money market in India?—It restores to circulation the currency abstracted from it.

3588 Would you like to say anything further as to the retention of large balances for long periods, and have you any suggestion to make as to the use of any surplus in the reduction of debt?—I think that surpluses in the Indian budget should be treated as they are supposed to be treated in the English budget—as a sinking fund for the reduction of debt, primarily floating debt, and in case of absolute need by the purchase of stock, exactly as the English Government would purchase Consols.

3589 You are referring to the old sinking fund in this country and drawing your argument from that analogy?—Yes.

3590 Is there this difference that debt is paid off in this country on balance, whereas in India the position is rather different, is it not, as India has a Government that is always borrowing?—I agree.

3591 So far as surplus revenue is brought across from India to London and is not used for the specific purpose of paying off debt, is it yet used, is it not, for the same purpose if it ensures the diminution of new debt?—Certainly. In the case of India, might I cite an example? I think that Sir James Westland applied his heavy surpluses after the mint closure, due to the holding up of Council bills, to two purposes—one to railway construction and the other, I think, to the avoidance for two years of rupee loans. That would be similar to paying off debt.

3592 You are aware that in this country the surpluses have been used to prevent new borrowing, and to that extent there would be an analogy?—Yes.

3593 If you were to use the surpluses exclusively on, perhaps, pedantic lines for the reduction of the existing debt, it would mean that you would have to issue new stock—pay off with one hand and raise new debt with the other hand?—That would be inadvisable provided the new stock were shortly to be raised, but if there was a probability of the stock not being required for two or three years, then there is a different aspect to the question.

3594 It would be a question of time?—Yes.

3595 Leaving out of account the question of time and assuming the money to be here what use would you make of the money in London pending the time which we have assumed to be near at hand for meeting expenditure? Have you got any objection to the practice of lending money out in the money market?—No better use could be made of it.

3596 Coming to the collection of revenue, the old doctrine used to be that it was advisable to leave money in the pockets of the leges to fructify, you know that doctrine, of course?—Yes.

3597 Is there any particular difference between the position of India and that of this country in this respect, that taxation is levied to a great extent at one particular season of the year, and so tends to enforce

\* See Appendix XIX, page 443.

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[Continued

a greater pressure on money markets?—That was the case in my time.

3598 It is so in this country, is it not, too, when the income tax is being collected?—It is, but owing to the action of the Bank of England, I believe the funds are released much more rapidly to the market than was apparent in India in my time.

3599 (*Chairman*) In the case of England, we are always over spent at the first part of the year, and therefore the moment we have collected the taxes they are paid out in redemption of the borrowing?—Which is in itself a reduction of the floating debt.

3600 In the case of India, does the time of the greatest collection of revenue come at the beginning of the financial year, or at the end?—The greatest pressure, owing to the abstraction of taxation from the current circulation, is in the early months of the calendar year, or rather the later months of the financial year.

3601 Is the Indian Government borrowing to pay its way in the early months of its financial year, and then paying off that debt in the later months when the revenue comes in, just as happens in England?—I do not know that the Indian Government borrows as the English Government does—at any rate not in India. The Secretary of State borrows in England.

3602 (*Sr Robert Chalmers*) Your point is that the collection of revenue tends to create stringency?—It did, and I believe still does, according to what I have read.

3603 Have you got any suggestions to make by which you think it would be possible to render the money in the treasuries in India available in any form for the relief of the Indian money market, say, by means of loans to banks or otherwise?—Of course it is released now by the sales of Council bills and transfers, but necessarily not always with perhaps sufficient rapidity. It might be released by way of loan to the banks, Presidency or otherwise, possibly, on security in India.

3604 What sort of security?—Undoubtedly Government paper should be a security. What further security might be acceptable is not a question I am prepared to dogmatise upon.

3605 What sort of rate have you in your mind that you would charge on behalf of the Government of India to the banks or other bodies to whom you would lend? Suppose the bank rate at the beginning of December was 7 per cent, what would you do as regards the rate that you would charge?—I see that the Secretary of State in a despatch to the Government in 1899 spoke of the rate being not below the bank rate. It seems to me that if the Government is to insist upon the bank rate, the temptation to employ Government funds for trade purposes would be lessened to the banks if they have to pay the maximum rate.

3606 Do you propose a lower rate, then?—I would not like to say how much lower, but I should think, to effect the purpose we have in view at the moment, it would be necessary to make it a profitable undertaking to the borrowers.

3607 Would those borrowers in your judgment properly be the Presidency banks, or do you contemplate any other borrowers?—Provided the security is sound, I do not see why we should limit those loans necessarily to the Presidency banks only. The exchange banks, provided they desire such accommodation and would lodge an equal security, should be placed on an equal footing.

3608 You contemplate banks?—There is nothing in India, I think, to compare with our big financial houses, and therefore I should say banks in India.

3609 Does it strike you as a possible danger in such a system that the banks might come to count on this as money that they could always get at that time, and would discount the advantage in advance?—I am afraid the mercantile and banking mind would always count on anything that they saw a prospect of being sure to get, but I do not think there would be any danger connected with their counting upon such accommodation, always provided they were prepared

to return the loans duly. In the past we know that was not the case, the Presidency banks have practically expressed inability to return loans in the past.

3610 You are aware of cases, are you, there was one in Lord Northbrook's time, I think?—I am aware of cases. They have been cited and published. Hence I believe the Government established reserve treasuries because of that.

3611 It would be very essential that the Government of India should be certain of getting back its money?—Undoubtedly.

3612 To the day, if it needed it?—Undoubtedly. In connection with that I would say that the capital and reserves at the banks nowadays are very much greater than they were in those days, and possibly the same difficulties would not be encountered again.

3613 Coming now to the sale of Council bills in order to provide for the home charges, the present practice of the India Office in selling its Council bills is familiar to you, I presume?—Yes.

3614 I think you have some alternative method to suggest, would you be so good as to state the methods and the objections you see to them?—I have none myself, but I am speaking of the alternatives which have been suggested in various quarters, and which I have ventured to consider in my previous evidence (*see Appendix XIX, page 544*). One alternative which has been urged is that the Indian Government should pay its home charges through the medium of certain Indian banks. To that I would lodge the objection that jealousy would be aroused by the selection of those banks and by the allocation of their respective proportions of the business. Such selection and allocation would not improbably give rise to the suspicions and innuendoes which have attended the distribution in loans of the India Office balances. Again, I think if the remittances were made at the best rates obtainable, without regard to the amounts remitted through the respective banks, the alternative would merely be equivalent to transferring the auction from London to India.

3615 We have been told that the Secretary of State sells his Councils up to the total demands of the trade, subject always to the proviso that his sales should not prevent a sufficient amount of gold going to India. Do you think he is right in doing that, and do you think his practice is sound?—In selling to the full extent of the demands of trade?

3616 Yes?—I think that he is entirely justified in selling freely and to the full demand of trade so far as his balances in India permit him to do so. The objection I would raise to selling more than those balances permit is, first, that he is under the Gold Note Act, which gives, I believe, the right of ear marking deposits in London and issuing rupees from the Paper Currency Department in India at specie point. And apart from that, I should object to him selling below the specie point. It is difficult, I admit, to say what the specie point always is, but I should object to his selling new rupees, new coinage in fact, below the equivalent of the specie point. In other words, the Secretary of State, or rather the Government of India, has notified that the new rupees would be issued against deposits of sovereigns from the mints, and it also issues notes of the Paper Currency Department at the same rate of 15 rupees to the £. When it has done the latter for every 15 rupees it has the equivalent sovereign, we will take it, but when it issues new rupees it does not hold the equivalent sovereign—it has only got the third of a sovereign. That is where I draw the distinction between the free sale of Council bills at any price against balances down to the minimum of 1s 3<sup>3</sup>/<sub>4</sub>d, and the sale of Council bills against new coinage.

3617 You were associated, you told us, as honorary secretary, with the Indian Currency Association, and you can speak for 20 years, would you say that the change from the silver standard to the present standard has been a boon?—Unquestionably.

3618 Do you hear of any desire, or do you express any desire to us, for a change in the contrary direction?—Towards reopening, do you mean?

3619 Yes?—That cry has subsided.

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[Continued]

2620 You think it has subsided?—Quite

3621 I think you quote Mr Webb to the effect that more people in India were able to use gold coins now than they were 15 years ago?—Yes. If I may, I will read you the extracts I have made. In 1898 Mr Webb published a memorandum on the Indian currency in which he expatiated on the poverty of India in the following words: "The poverty of the great mass of the people renders a gold coin or gold in any form entirely beyond their means. The native moneylenders would continue to receive 12 per cent to 75 per cent per annum for ordinary temporary accommodation, and they would not, and could not, use and demand that gold capital the assumed advantages of which are one of the main foundations of the present proposals to abandon India's silver standard. The gold standard, with or without a gold currency, could not, for the reasons already given, prove otherwise than injurious to the commerce of India, to the revenues of the Government, and to the well-being of the great mass of the population." That was written in 1898 at the time of the Fowler Enquiry. I read that as evidence that in the opinion of the writer the country was then in a very poverty-stricken condition and quite unable to use a gold currency. But in 1912, 14 years later, Mr Webb wrote "Probably more individuals in India are in a position to use gold coins than in the United Kingdom." The only inference I can draw from that is that in the interval the prosperity of India has put its people in a position to use coins which he said were absolutely unsuited and too rich for them 14 years previously.

3622 You use his testimony in corroboration of your own opinion?—Of my own opinion, yes.

3623 That the closing of the mints and the use of the gold standard has been a boon affecting the prosperity of India?—Undoubtedly.

3624 Coming now to the question of the use of gold coins, do you think that any special efforts should be made by the Government of India to encourage their use?—No, I deprecate such special efforts.

3625 What would be your view?—I think that the question of the use of a gold currency will be solved ultimately by the people of India, quite independently of any efforts that we can make either one way or the other, and I should prefer to leave it at that. I should certainly deprecate any arbitrary measures for preventing the flow of gold to India. On the other hand, I do not think it comes within the province of the Government to depute its officers, as has been done—or, rather, I will not say "depute," but illustrations have been given of Government officers having used their influence to circulate gold coins, and I do not think that is quite what should come within the province of the Government.

3626 You would leave it to the desires of the people?—Certainly.

3627 And to the movements of trade?—Certainly.

3628 A certain number of people hold that the use of gold coins is a very extravagant form of currency, and that the use of tokens, or of paper currency, is a more economical and scientific mode of currency, would that be your feeling on that subject?—Distinctly so. I think the cheaper the form of internal currency the better. So much is saved, and the gold could be conserved for the purpose of securing the external exchange value of the internal currency.

3629 You would not bring any pressure, therefore, to bear on the people to use gold, and you would follow their desires, but you would be rather more pleased to see non-gold used as the actual currency from hand to hand?—I think, really, if I may speak broadly, that the nation which exchanges its valuable products for a lot of metal which it can dispense with is simply wasting those products.

3630 I will take next, if you please, the question of the Gold Standard Reserve. I should gather from your previous remarks that you would regard the maintenance of an adequate Gold Standard Reserve as

being the most vital thing to India?—Under the present currency system, yes.

3631 Up till now that Gold Standard Reserve has been accumulated in the way that you are familiar with, and has been subject to no statutory sanction in any way. Has the time arrived, in your opinion, when any regulations could be drawn up for the government of the Gold Standard Reserve?—With regard to its size or its regulation, only?

3632 Its regulation?—I think it distinctly advisable that something of that nature should be recommended by this Commission. Might I just say why I think so?

3633 If you please?—In the budget statement of 1908 Mr E. N. Baker, when defending his refusal to issue gold freely in the crisis of the previous year, made use of some remarkable words concerning the Gold Standard Reserve. He said, "The time and method of the employment of the gold standard reserve must be at the discretion of the Secretary of State by whom the reserve is controlled." I venture to submit that this is a most dangerous dictum. The reserve should be held under regulations which would bring it into use automatically, and the public should know clearly what the regulations are. Its transfer to the care of a bank or to a special department created by legislative act, with strictly defined powers, would be greatly preferable to leaving its use dependent upon the will or whim of the Secretary of State for the time being or of his financial advisers.

3634 Have you got any general indications that you could suggest to the Commission with regard to the content of the regulations which you have in mind?—What sort of regulations have you in mind?—I have not presumed to lay down regulations which I thought should be preferably left to this Commission.

3635 I will give you an instance. Would you take, as one of your suggested regulations that exchange should be sold freely at 1s 3½d?—I would say more than that. I think that the public which has invested gold in the purchase of rupees is entitled to have that gold returned at the gold export point, which is 1s 3½d.

3636 That would be one of the regulations?—Yes.

3637 Have you any others in your mind that you could mention?—Another would be that, instead of selling the sterling drafts on one day per week, as I think, if I recollect rightly, was done in previous cases, and advertising a certain fixed sum, as is done with Council bills at this end, I venture to think that anyone should be able to purchase a sterling draft on any day of the week for export purposes, so that he may transfer his capital or his money for longer or shorter periods, or permanently if he wishes it, at that minimum rate. I think that with a properly constituted reserve in London of sufficient strength, that might be done with advantage.

3638 That would be the primary regulation, then, that you have in mind?—Yes.

3639 Free sale at a fixed minimum figure?—Yes.

3640 And the use of the Gold Standard Reserve to be restricted exclusively to the purpose of maintaining exchange?—Certainly—for remittance purposes, in my opinion.

3641 Have you any remarks to make on that point, on the subject of the six crores in silver?—At the time that those six crores of silver were substituted for four millions sterling in gold I did make comments publicly at a bank meeting in London on the advisability of that. It was reducing, and, as we know from subsequent events, reducing at a very critical time, the Gold Standard Reserve. Under the new regulations which have lately been promulgated by the Government, it has become not a silver branch but an Indian branch of the Gold Standard Reserve, and I can quite see its usefulness for relieving the seasonal demand for silver which we know occurs. In other words, my objection to a certain portion of the gold reserve being kept in India in silver is lessened in consequence of the new regulations.

3642 You can see its utility to the Government of India, but do you retain objection to those crores



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being part of the Gold Standard Reserve?—No, they are so no longer, really, they are an Indian branch of the Gold Standard Reserve, and are practically used for purely Indian purposes

3643 (Chairman) You mean that, in effect, they have become part of the Currency Reserve?—Practically, because they are interchangeable with it. They should not, in any case, be counted in the amount which may ultimately be suggested by this Commission as the actual Gold Standard Reserve held in London

3644 (Sir Robert Chalmers) It is gold passed into silver, and no longer gold in reserve?—Yes

3645 Passing now to the composition of the reserve, that, at the present moment, as you know, is partly in securities and partly in metallic gold?—Yes

3646 You attach primary importance to metallic gold, I understand?—I would not like to say primary importance, but I think that a certain proportion should be held in metallic gold

3647 How much do you think should be held, and how would you arrive at your figure?—As to size or proportion in gold, or both?

3648 Take both?—As to the size of the reserve, if we may judge by the extent of the drain upon it in 1907-8, the reserve is at present ample, taking into account the very large amount of gold in the Paper Currency Reserve, which practically doubles the Gold Reserve. I attach more importance to the resolution and confidence with which the Currency Scheme is backed than to the mere size of the reserve. A comparatively small reserve, backed by a resolute policy, would give the public more confidence—I attach great importance to confidence in this scheme—and do more to prevent or allay panic than a larger reserve with a continuance of the irresolution and vacillation which have often been apparent in the past. I do not think that the reserve should be unlimited. Its size should be fixed on some reasonable basis, not merely arbitrarily. Its fixture arbitrarily is merely guesswork. It might be fixed on a basis of experience, or of analogy and comparison. In the former case we could go upon the actual loss of gold in the crisis of 1907-8, say, from all sources, about 17,000,000*l.*, or a little more, I think it was (the actual export or transfer of gold out of India was only about 13,000,000*l.*, that is to say, 8*l.* millions, I think, sterling drafts on the Gold Standard Reserve, and a reduction of about 5 millions or 5*l.* millions in the amount of gold held in London against the Paper Currency Reserve, that is the way I estimated that), plus the Council bill shortage for the year, which, I think, was about 3 millions or 4 millions, speaking from memory. To this, a reasonable margin for apprehension should be added, for that, I should say, perhaps, 50 per cent. The public will watch the gradual falling of the reserve, and we should have something to give them ample security in that case. If we start on a basis of analogy and comparison, we may liken the liabilities of the Government under the scheme to those of a banker. It will be necessary to estimate those liabilities. The estimate of the rupees in circulation at the time of the Fowler inquiry was 120 crores. The Committee did not vouch for these figures, and I think that a serious attempt should be made to estimate the circulation, even roughly, now. I use the word "serious," because I have often heard comments on the unreliability of the statistics collected throughout India, very often from Indian sources, as to the composition of the circulation. An estimate of 200 crores would give about Rs. 7 per head of population, roughly. Now the English joint stock banks keep about 23 per cent. of their liabilities in cash, at the Bank of England, at call, and at short notice—that is, including their capital and reserves in addition to their other liabilities, it works out to about 23 per cent. A like proportion gives 46 crores, or, say, about 30,000,000*l.*, as the size of the reserve against rupee liabilities. Of this 23 per cent., the English banks hold about half in actual cash, or at the Bank of England, which is the same thing. This might serve as the basis for estimating what proportion of the reserve should be kept in actual gold. It must not be overlooked that the English banks' figures are "window-dressing" figures, and that the working percentages

are probably smaller. That is simply a suggestion which I venture, with all respect, to lay before the Commission. As to a mere arbitrary guessing at what we should have, 30, 40, 50, 60, or 70 millions, I can only say, so many minds so many guesses.

3649 Do you think the experience of 1907-8 to which you refer is necessarily a complete test for the future?—I think it was a very good one, because it is a curious combination, there was a world's crisis and a shortage of crops.

3650 Was it a world's crisis exactly? The storm centre, to use a phrase we have heard to day, was not in London?—No, it was in America, but the strain was felt in London, as we know.

3651 The storm centre was not in London, and though you had a famine in India, you did not have a great commercial crisis at this centre, London?—That is so.

3652 To that extent, therefore, the past is not a full measure of what might be in the future?—Assuming a great financial crisis, we have not had experience of that in London.

3653 Would you be prepared to indicate, under present circumstances, the sort of amount at which you would keep the metallic gold?—If my basis were accepted of 30 millions, then I would go on what the English banks hold—one half—which would be 15 millions.

3654 You would go as far as 15 millions?—I would go to one half because of my analogy. Similarly, if we go on the basis of experience, I do not think that anything less than 12 millions or 15 millions would be looked on as fulfilling the purposes which I think the Gold Standard Reserve might serve.

3655 Your argument is based, to a great extent, on you view that the amount of rupees in circulation is the primary factor?—Yes, a primary factor.

3656 And not the balance of trade?—"The balance of trade" with regard to India has always been a puzzling expression, "the balance of trade" is a puzzling expression anywhere, but particularly with regard to India. With other countries we will presume that they are exporting and importing, we will say, commodities, and when the trade balance is favourable they import the precious metals as currency, but in India it seems to be quite a different thing, and they import vast quantities of the precious metals, not as currency but as mere articles of merchandise. It is, therefore, very difficult often to say what is the true balance of trade in India, whereas it is simpler in the case of other countries.

3657 You are providing a Gold Standard Reserve with reference to the total number of rupees in India?—Yes.

3658 And not those rupees only which actually impinge on exchange?—The actual rupees which will impinge on exchange at any given time will be those seeking remittance from the country.

3659 You are not dealing with those only, but you are taking all the rupees?—Because it is impossible to estimate what those rupees are. I estimate in the case of the trade balance proving unfavourable and a desire for remittance arising, that if you had a Gold Standard Reserve which would absorb that 23 per cent. of the total rupees in circulation, you would be going, backed if necessary by a loan, as far as you could in reason be expected ever to go.

3660 Some people might think further?—They might.

3661 Is your argument based on the total amount of circulation, or the total amount of rupees coined?—On the total amount of rupees coined. I would not necessarily say coined, because there may be many rupees which are held in hoards, and are not affecting circulation at all. When speaking of circulation I mean the actual amount of money or currency which is being employed for the purposes of trade at the time.

3662 You take the wider definition for the time for your purpose?—Yes.

3663 Leaving that, and coming now to the Paper Currency Reserve, you are aware that there is a certain amount of paper currency reserve which is held in gold?—Yes.

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3664 And that is held in London?—Yes

3665 Would you be so good as to state to the Commission your views on that, do you think that right?—I think that if you have a properly constituted Gold Standard Reserve in London there will no longer be any need to keep any of your metallic currency of the Paper Currency Reserve in this country also. You are having two reserves for one and the same purpose at present.

3666 Have you got any remedy to suggest?—The transfer of the metallic reserve of the Paper Currency Department to India.

3667 The gold of it?—Not at present, because the Government of India have been hampered by the accumulation in its Paper Currency Reserve of gold which will not pass into circulation, but that is what I am ultimately aiming at.

3668 Do you contemplate, in those ultimate aims of yours, any transfer of the six crores of silver to the Paper Currency Reserve?—That I believe is contemplated by the Government as a seasonal thing in its new regulations.

3669 It has been suggested to this Commission that it might be a good thing to make loans from the Paper Currency Reserve on proper security to the Presidency banks with a view to making the currency elastic, and so forth, would you favour that?—I should favour it to this extent. In the first place, we ought to have regulations as to what the fiduciary proportion of the Paper Currency Reserve should be. In my days in India we were frequently, as a Finance Committee of the Chamber of Commerce, called upon to consider the question of increasing that fiduciary issue, and it was always done on the basis of one third of the permanent circulation being assumed to be safely placed in investments. At present there is only something like one fifth and therefore there seems a possibility of a very large extension of the fiduciary issue. Some years ago I believe the Government of India placed it on record in a letter\* that they looked forward to the time when one half of their paper currency would be a fiduciary issue. Without going so far as that and taking the one third, it seems to me that that 9 or 10 crores which could now be placed upon a fiduciary basis might be instead used for easing the money market in the shape of the loans you refer to.

3670 Do you contemplate as much as nine or ten crores being possibly put out in the money market of India?—I do not think it would be, but I think it might be made available.

3671 It would be probably three times too big would it not?—I am no longer in India, and I am not prepared to give an opinion on that point at present.

3672 Am I right in thinking that you would be prepared to make loans from the Paper Currency Reserve to, say, the Presidency banks, within the fiduciary total?—Certainly, I would.

3673 But there again, as you told me in answer to a previous question, at the beginning of your evidence, you would require first rate security?—Yes.

3674 And that would be not in addition to any maximum of the fiduciary issue, but in lieu of part?—In lieu of part, after it had been decided what the proportion of that fiduciary issue might safely be fixed at. As I have instanced to you originally we used to base our calculation on one third, but the Government of India has ventured as far as 50 per cent.

3675 The conditions of India might change, the people may come to use cheques, for instance, and so forth, more freely, and the issue of notes might become relatively less significant than it has more recently been?—The use of cheques in India might be advantageously extended even in the Presidency towns. It is very poor at present. I see in a Calcutta paper received by this mail a complaint from a correspondent, who says that many large firms in Calcutta still pay in currency instead of in cheques, and he is asking the editor of the paper to publish that with a view to inducing the more frequent use of cheques.

\* See in this connection paragraph 5 of Enclosure 1 to letter from Government of India No 295 dated 18th August 1904, Appendix VIII, page 264.

3676 To the extent to which any movement on those lines proceeded, to that extent there would be a diminution of the currency notes?—Of the rupee circulation.

3677 Or of both?—Or of both, unless it proceeded with such expansion of business as to absorb that too.

3678 The point I wanted to get your opinion on was whether a certain measure of caution might not prudently be exercised as to limiting the fiduciary portion of the Paper Currency Reserve, seeing that it is possible that circumstances might change?—You could realise your securities in such a case, and would do so, no doubt.

3679 That is your assumption?—Well!

3680 It is an assumption, you will admit, because the circumstances of the money market might make it very difficult to realise your securities?—It depends what those securities are.

3681 And the size of the market on which you would unload those securities at the time of your need?—Undoubtedly.

3682 Which might be their need too?—It might be their need as well. I would point out that part of the fiduciary issue is at present secured in British securities in this country—gold securities. I am not venturing to submit that all the extension of the fiduciary issue should always be in rupee paper.

3683 May I take you now to the question, which is a very large question, of the State Bank. What would you say on that? Would you favour the Commission with your views about the advantages and the disadvantages of a State bank?—I have ventured to formulate my views on the basis of the memorandum which was submitted to the Fowler Committee by Mr Alfred de Rothschild, and I have read and heard many recommendations of such a bank. I am bound to admit that if it fulfilled the intentions of its would be promoters, and so forth, it would be a most valuable addition to the banking resources of India, subject, as I ventured to point out, to restrictions which would prevent unfair competition with the exchange banks. With regard to that, I may say that Mr Alfred de Rothschild in his original paper submitted that the bank should not conduct any exchange operations, but should confine itself, like the existing Presidency banks, exclusively to internal operations. Of course, that would meet my first objection. Next, to protect from what would be unfair competition the solvent and well-managed Indian banks. I think the Government can regard with complacency, even if it does not encourage, the extension of Indian banking pure and simple, but that it should not, by the institution of a State bank, cut away the ground from under the feet of those solvent institutions. On the other hand, there are a great number of banks being started now in India the resources of which are ridiculously small, and they constitute a danger to the public. Possibly the establishment of a State bank, working in numerous branches on the lines of the Bank of France, might to a certain extent supply a need and be a safe depository for greater savings.

3684 Do you think there is a popular demand for a State bank in India?—I do not think so. I am merely taking this somewhat highly coloured representation of what a State bank will or would do, and I say that such an institution, if it fulfilled these purposes, would be valuable.

3685 You attach particular importance, I think, to a bank of that nature, or otherwise, with branches which would co-operate with the ryot in giving him advances at less ruinous rates than he has to pay at present, but you look forward to something else, and I think you attach importance to something in the nature of co-operative banking?—I do not think I have mentioned that at all in my précis. What I have said is that a State bank would, by opening branches all over the country, provide that absolute security for the native depositor and trader, which has not in the past been peculiarly conspicuous as a feature of Indian banking. I am not thoroughly acquainted with the co-operative credit movement in India, but from what I have read of it, it seems to me that it is meeting the wants of the ryot better possibly than could be done in any

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other way, but I have not connected that in any way with the State bank

3686 You do not connect it in that way?—No

3687 It is an object you have in view, but you have not connected it with the other question?—I have not connected it

3688 Do you suppose that if there were a big State bank, able to extend its operations by creating branches in places where there are no banks at the present time, it would take long before those new branches would pay?—Predictions in India are more dangerous than in any other country. The only evidence I have which is of any use is possibly that of the experience of the Bank of France, if I might just give that. In 1878—I have taken this from a paper read before the Institute of Bankers some years ago—there were 41 branches of the Bank of France carried on at a loss of 32,000*l*, while 45 branches were carried on at a profit of 99,000*l*. Twenty years later, in 1898, there were only two branches working at a loss, the amount of which came to only 3,000*l* a year, while the productive branches yielded a profit of 413,000*l*. That is the only evidence I can submit

3689 Coming now to the general question of a State bank, it would have to be a very big institution, would it not?—Yes

3690 What sort of capital have you in mind that it would require, treating it as a State bank for the whole of India?—I have not ventured to think of any capital myself, and the capital which has been suggested by others seems to me one which, on present lines would never earn its dividend. When you come to look at the proposed bank as a paying proposition, I find many grave difficulties in the way. The project, as originally submitted to the Fowler Committee, presumed a capital of 14 millions, and to pay a 5 per cent dividend would require a net earning of 700,000*l*. The three Presidency banks have together in capital and reserve about 7½ crores, or five millions sterling, and they pay dividends totalling annually about 340,000*l*. It is difficult to see how this could be doubled short of a heavy Government subsidy in the shape of the profits of the Paper Currency Department. Would a heavy subsidy be just? Assuming that the capital of the State bank be limited to 10 million pounds—that suggestion has been put before me from several quarters—requiring only 500,000*l* net profit to pay 5 per cent, the absorption of the existing banks would, likewise, absorb nearly the whole of this capital. Shareholders in the existing banks would presumably have the option of exchanging their holdings into shares of the State bank or of being bought out. The market value of those holdings is now about 8½ millions sterling. With the usual “inducement” to amicable arrangement, probably nine million pounds would be required to bring about the amalgamation. The actual addition to working capital would be a solitary million sterling. I therefore wind up by saying that, theoretically, the suggestion of a State bank is an inviting one; practically, it is not yet apparent that it would be a paying proposition.

3691 That is your view?—That is my view

3692 Would you say something further as to the utility, were such a bank established, of its looking after the sale of Council bills?—I have not ventured to suggest any alteration in the sale of Council bills

3693 Do you conceive that any particular benefit would ensue?—I do not. I think people would be terribly excited if Council bills were handed over. The jealousy of the other banks would be rampant.

3694 Take another aspect of the probable activities of a State bank. It is quite conceivable that it might be entrusted with the management of the paper currency, what would be your view as to the utility of that?—I think a paper currency is probably better managed by a bank than by a Government.

3695 In time or at once? Could the bank take it over and do the work of the Currency Department?—The bank would take it over in that case.

3696 Could it do it quite as well at once, do you think?—That would depend largely on the staff, I should think.

3697 The paper currency is a profitable concern to the Government?—Yes

3698 And it would be, therefore, a profitable business to the State bank?—If it is going to be handed over it would be taking a large profit which the taxpayer would have to make up. That is my objection to the transfer

3699 Is there any further observation you would like to make?—In regard to the use of the Gold Standard Reserve I am suggesting something which probably will be regarded as heretical, but I will be courageous enough to make it. I say that with a properly constituted Gold Standard Reserve, held in this country, there should be no need for holding any portion of the metallic reserve of the Paper Currency Department here also. The proper place for this reserve would appear to be India, since it exists to insure the convertibility of the notes, not the maintenance of the exchange value of the rupee. As regards the Gold Standard Reserve, hitherto it has been the practice, when exchange threatened to fall below specie point, to offer fixed amounts of sterling drafts on London upon a given day each week. With a properly constituted reserve in London, it should be possible to sell telegraphic transfers upon any day of the week up to a reasonable limit. Assume a grave financial crisis in London, with the exchange banks and merchants anxious to strengthen the resources of their head offices in England. Actual gold could be released in London, to the advantage of all concerned. I am now assuming that we have the reserve I suggested of 30 millions, of which half would be in liquid gold. It is certain that gold released in a London crisis would be to the advantage of London, and it certainly would be to the advantage of India. It would give her a profitable use for her money at a time when she might be willing to lend, and she could not lend it to a better market. It would be of service to the exchange banks and to the merchants anxious to strengthen their London offices if they could have these remittances by means which would help to terminate the crisis. The reason I have for suggesting it is that I was in India through the Baring crisis, and at that time—I take it on the authority of the Bank of Bengal—the aggregate balances of the Presidency banks were about 13 crores of rupees, and they were not able to lend much at 3 per cent. According to a statement of Mr Lindsay, published in the “Economic” on 25th July 1891, pp 960–1, they would have been glad to lend the three millions, or whatever was required, to London at 2 per cent. That is a statement made in print by Mr Lindsay, who was the Deputy-Treasurer of the Bank of Bengal at the time. Had that been possible, there would have been no need for us to go cap in hand to France for three millions of gold. At that time—I was employed in the firm at the time, and I know the fact—a large mercantile firm were desirous of remitting some few thousands of pounds to strengthen their London house—they thought it would be better to strengthen their reserves at such a critical time, though they were in no danger. We were unable to buy telegraphic transfers from any of the English banks, and only through the Comptoir National could we purchase them. The English banks declined to weaken their head offices at that time. Such was the report brought back to us by the brokers

3700 (Lord Fisher) Did I understand you to say that you would let out the Government balances in India at something below bank rate?—I said that unless you made it profitable to the banks they would not borrow

3701 Would it not be better, do you think, to lend out such money as that at market rates? Have you a market rate in India as we have in England, apart from the bank rate?—The banks advance there at 1 per cent. and 2 per cent. frequently over the bank rate.

3702 And that is the market rate?—Yes. They charge 1 per cent. or 2 per cent. to the mercantile houses, the percentage depending largely on the credit of the mercantile houses. That is for overdrafts in course of shipment and so forth in the export trade.

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For long periods I believe special terms, and quite different terms, are made

3703 You might, I suppose allow balances to be taken up there either at market rate or by tender?—That would be for tender by the banks, I understand?

3704 Yes?—I dare say

3705 What I have got in my mind is that I think you might very easily make a grievance if you lent to any particular banks at something below what I should call the market rate?—Quite possibly

3706 It would give those banks an advantage over others?—I am quite with you.

3707 I think if it could be done by tender it might perhaps do away with those grievances?—It would, necessarily

3708 (Mr Gillan) You said, in answer to Sir Robert Chalmers, that you think the balances of the Government of India recently have been unnecessarily large?—Yes

3709 And the cause, you thought, was that the budgets had been too pessimistic?—Yes

3710 I suppose you recognise that under present conditions there are great difficulties in the way of budgeting in India?—There always are

3711 The rule which the Government of India have to follow, *faute de mieux*, is to budget for the normal?—Yes

3712 An estimate based on the normal is an estimate that is bound to be exceeded if you get a good year?—I would venture to interpolate, if I may, that while the Government should budget for the normal, reading the various speeches of Sir Guy Fleetwood Wilson, I think he has always budgeted for below the normal. All his speeches that I have read have been pessimistic ones

3713 That is to say, they have not fixed the normal at a proper level?—As the results prove, apparently

3714 Suppose they had budgeted for a fuller normal, and the actuals in consequence had been closer to the budget estimates, or, rather, we will say, that you foresaw that you were going to have a bigger surplus than was put down in the budget, in that event what would you have done?—In the first place I would not have imposed taxation, but the Indian Government has done so

3715 That was in 1910. If you had foreseen a bigger surplus would you have taken off taxation?—If I had foreseen a bigger surplus for one year, no I have now got in my mind the opium surplus. If I had foreseen a surplus of one year, no, if I had foreseen what appeared to be a permanent surplus, yes

3716 Suppose the surplus you foresaw was going to last, as far as you could judge, for only two or three years?—He would be a very wise Finance Minister who could look more than two or three years ahead

3717 I know, but supposing your forecast was for two or three years only?—I should have accepted it

3718 You mean you would have taken off taxation?—Yes

3719 Would that have been because you consider that taxation at present is, as a matter of fact, excessive?—I would not like to say that taxation is excessive, but I think there are a number of cases where it is inadvisable. In one particular alone I think it is very inadvisable. Might I refer to the income tax? There is an income-tax which, applied to the European firms, is a just tax. I never complained of it, and I pay it still in both countries. As applied to the native it is a mistake. The great aim of the Government should be to get the native of India to invest his money in joint stock enterprises and in securities, but no sooner has he done so than the Government sweeps down upon him for a tax, and if there is one thing hated by the Indian more than another it is a Government tax. It is not an encouragement to the bringing out of hoards to tax them at once when they appear and you can lay hold of them. That is my point.

3720 Would you make use of some of those large surpluses that you foresaw to remedy defects in the

income tax?—I think it is an inadvisable tax, politically considered, as applied to the Indian

3721 With regard to Council bills, I think you said that the effect of Council bills was to restore to the circulation in India the currency abstracted from it?—The currency collected from the circulation is restored to the circulation by sales in the form of Council bills

3722 That is not affected particularly or specially by Council bills, is it? If the Secretary of State did not draw Council bills you would have the funds going into India in the shape of sovereigns and there being exchanged for rupees, restoring in that way the circulation which had been withdrawn?—If rupees are wanted you can only get them either through the Secretary of State or through the importation of gold

3723 If you stopped the sale of Council bills you would not necessarily stop the restoration of this currency which you have in mind?—If you stop the sale of Council bills the Government will accumulate the taxation in its treasuries. It could not remit the proceeds of that taxation to pay its debt in England because those proceeds are in silver. It will have to exchange them in some way or other, and with someone or other, for gold with which to pay its debts in England

3724 But the rupees which were wanted for circulation would equally be withdrawn from the currency by the presentation of sovereigns?—They could be withdrawn from the Treasury by the presentation of the sovereigns, and those sovereigns would have to be remitted at the cost of the Government to England to pay debts

3725 That is a further consequence, no doubt. With regard to the loans from Government balances in India, we have had some witnesses who said they saw no objection to such loans being made, but at the same time they were not very enthusiastic on the subject, and they did not consider that there was any very great necessity for them. What is your view on that?—The necessity would be shown by the tenders which Lord Faber has referred to

3726 Do you think that ordinarily in the course of the busy season in India it would be a good thing for the Indian money market to be helped by loans from Government?—Application has been made in the past by the Presidency banks for loans at those seasons, and they have been refused.

3727 Do you think in a general way it is very important for the Government to help the money market as far as it can out of its balances?—If the Government by its action has abstracted from the circulation currency which is needed, it is the Government's business to restore it to the circulation as soon as possible

3728 On the matter of the form of the currency for India, I think you said that on the whole you would prefer an extension of the note circulation to an extension of the gold circulation?—Yes, I think that is most desirable

3729 There is one point I wish to put in that connection. At present there is the right to cash the notes at only a small number of places in India, that is to say, at the currency offices, if the Government were inclined to increase the number of those centres this is the kind of difficulty that presents itself to my mind, and I would like you to consider it. Suppose you take a place like Ahmedabad, in the Bombay Presidency, where the big crop is cotton. The demand for cash at Ahmedabad will come in February or March or April. It would then subside, and there would be a back current of rupees in what, for Ahmedabad would be the slack season, say from May, or after that. About July you get a great demand for rupees in quite a different part of the country, because then the rute comes on. Therefore, Government will be getting back its rupees, we will say, at Ahmedabad, and simultaneously it will have to plant a very large number of crores of rupees at the other end of the country, in Eastern Bengal?—Do you mean to say in exchange for notes?

3730 Yes?—That is one of the difficulties which the Government faced when it extended the conditions of the universal circulation of notes, but then the profits on the Paper Currency Department are large,

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and, if it is a mere question of transporting currency, the Government is well able to do it out of their profits

3731 Do you think it the work of the Government to undertake this responsibility to find rupees all over the country in order to extend its note circulation?—I think that if the note circulation were handed over to a bank, the bank would make profits out of that circulation, and would take risks which possibly the Government at present is somewhat loath to do

3732 Then from your point of view a bank could do this particular kind of business better than the Government could?—I do not say it could, because latterly the Government have extended it enormously, but I say it would be its policy to do so, because it would be profitable

3733 When Sir Robert Chalmers was asking you about the Gold Standard Reserve, and you suggested that certain regulations should be drawn up for it, I think you said something to this effect—that the owners of rupees are entitled to get them changed into gold?—A member of the public who has paid you a sovereign for 15 rupees to place in India is entitled to have his money back if he wishes it

3734 Might I ask you to tell me once more what was the regulation that you proposed on that point?—That the Government should always be prepared to issue sterling drafts, or telegraphic transfers, at this rate of 1s. 8½d. or 1s. 3½d., as the case may be, on demand

3735 I understand this is to be a regulation of some sort?—Yes, and it is practically so now, because the Government does it, but it is not stereotyped in a statutory form

3736 That is what I want to get at. What would be the difference? Would it impose on the Government a legal liability?—If it were put into statutory form it would. The evasion of such a liability means disaster to India, it means the utter collapse of the currency system.

3737 Do you not think that is going rather far? Is this absolute liability to find gold for silver on any or all occasions a feature of the currency of any country except England?—I do not say that India should do that, I say it should only do it for remitters, exactly as Holland does, I believe Holland does that to day—she finds gold for export but not for internal use

3738 That is a point I was not quite clear about. You do not mean that anybody who takes 15 rupees to a treasury or to a mint in India should get a sovereign for it?—No. The sovereign has been brought into the country and changed into rupees. When the man wants his sovereign back again it is to go out of the country. That is the way I look upon it.

3739 Then this regulation would be limited to remittances?—Undoubtedly. Might I quote you in two lines the point as dealt with by the Fowler Committee? The Fowler Committee said in effect that the Government should not be compelled by law to furnish gold for internal purposes. That you will find in paragraph 59 of the Fowler Committee's Report.

3740 I will now go on to the amount of the Gold Standard Reserve, with regard to which you say that you would like to define it with some reference to the amount of rupees in circulation. I think that is your general idea?—That is a suggestion.

3741 You said, I think, that it would be well to have some serious step taken to ascertain the amount of the rupee circulation?—Yes.

3742 I suppose you know of the calculations that were made on that subject by Mr Harrison?—Yes, and by Mr Atkinson too, whom I knew personally.

3743 What were, do you think, the defects in those calculations? Did they not, as a matter of fact, make use of all the information that is probably available on a subject of this kind?—I do not know whether it would be quite right to quote one of the members of the Commission on that point, but Mr Keynes thinks exactly with me. In his very able book which I have had the pleasure of reading, he says doubts were thrown upon the collection of the various statistics which were applied for the purpose of ascertaining this figure. The Government had certain rupees

counted at certain centres, and I believe Mr Keynes throws doubt, as many others have done, on the reliability of these countings.

3744 Do you think the data were wrong?—I have no knowledge, I merely say that that is the fact I have had it said to me by statisticians in India that anyone who knows anything about Indian statistics knows that they are not worth a penny.

3745 What I wanted to get at from you was whether you thought the calculation of the rupees in circulation is not a problem which is indefinite in its nature?—Which is necessarily indefinite?

3746 Yes?—It is a very difficult problem. I believe that the statistics which give the gold circulation in England are not accepted as being absolutely definite, but they are approximate, and I think you may get a similar approximate estimate for India.

3747 Why I am asking you more particularly about this is that I think one reason why you would like to fix the reserve in some sort of proportion to circulation is that you think the circulation is a more definite figure than the amount which would impinge, as Sir Robert Chalmers said, on exchange?—The amount which would impinge on exchange you can never define, I think. That would be the amount which would seek external remittance, and what that is you would never ascertain. It would depend upon the extent of the crisis, the state of trade, and various other factors.

3748 Do you not think that the experience we have had of the past crisis of, say, 1907-8, is perhaps as good an indication of the amount that would be required by the public as any inference based on a calculation of the rupees in circulation?—Quite as good.

3749 Then with regard to the proportion of the circulation that should be fixed as the amount of the Gold Standard Reserve, you referred to the practice of the English joint stock banks as a sort of example, do you think that that is a direct analogy?—It is not a close analogy.

3750 Do you think it is an analogy which might be taken?—It is an analogy.

3751 Is it not the case, for instance, that the amount of the reserve which banks consider they require varies very largely according to the kind of banking business done?—I am taking the average of the whole of the joint stock banks in England and Wales, that is what I am basing my percentage on. They vary very considerably, undoubtedly, but I am simply taking the average.

3752 If you take another class of banks, they would give you a different percentage, would they not?—If you separated the banks you would get a different average, but I am taking the average of the whole.

3753 (Lord Faber) I think in that instance of yours, you said the banks kept cash and liquid assets?—Cash in hand or at the Bank of England to the extent of about half of this 23 per cent.

3754 That is liquid assets, it is not gold, you know that, of course?—I have defined the whole thing. What I said was that the English joint stock banks keep about 23 per cent of their liabilities in cash, at the Bank of England, at call, and at short notice.

3755 Not so very much of that is what you and I understand by cash, that is, gold?—A like proportion gives 46 crores, or say, about 30,000,000l as the size of the reserve against rupee liability. Of this 23 per cent. the English banks hold about half in actual cash or at the Bank of England, which is the same thing.

3756 But it is not in gold. All I want you to understand is that out of that 23 per cent. not much is gold?—What is put into the Bank of England we look upon as gold. That is my point.

3757 They will not regard it as such. Why I say this is because we have a great discussion going on just at this moment, and the Bank of England have taken the standpoint that a balance at the Bank of England is not the same as gold?—It is perfectly certain that it is not, because the total balances at the Bank of England would shrink away the whole of the gold immediately—I admit that.

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3758 They go on and explain it in this way, that the joint stock banks are so very big in England now that under certain circumstances it might not be possible even for the Bank of England to pay all their balances off in gold?—I can quite see that they could not.

3759 Because the outside banks are so big and strong?—Yes. Again, if the whole of the banknotes were presented to the Bank of England, the Bank of England would be insolvent. We know that, and we should suspend the Charter Act.

3760 Still there is a great deal of gold against the notes?—But still they are short. You have a note issue of 55 millions, and you have not that amount in gold at the Bank of England to meet it.

3761 (Mr Keynes) Your figure of the half of 23 per cent is not an ascertained figure, but it is an estimate which is open to doubt, I think?—It is ascertained. I am taking some of the leading banks of the country.

3762 And you are applying the half of the 23 per cent to other banks for which the figure is not known?—Precisely, because they have confused the two halves together in their balance sheets.

3763 So it is a case of not being an ascertained figure?—It is ascertained on the basis of four banks, the London County and Westminster, the Capital and Counties, the Union of London, and the London and Provincial.

3764 It is based on the assumption that all the other banks keep as good an average as those banks?—I should not like to say that, I am hoping that it is so.

3765 It is based on that assumption?—I am assuming that, in these figures.

3766 (Lord Faber) The only point I am trying to make is that liquid assets at the Bank of England is not at all the same as gold?—It is not, I quite agree. When I say it is the same thing, I mean that in England it is looked upon as the same thing.

3767 (Mr Gillan) I would like you to consider the Paper Currency Reserve and the Gold Standard Reserve together in regard to the location of any gold that is contained in them. Do you consider, taking the general question, that as a whole gold held in India is more advantageous for the support of exchange than gold held here?—I should say gold held in England, most distinctly. You could then undoubtedly limit the demand to gold asked for by remitters, and I think it is the only safety of the present scheme that it should be limited to remitters.

3768 Gold that is drawn out from currency in a time of crisis, as it was drawn out in 1908, you consider does not support exchange?—It does not, it disappears.

3769 I want to put this to you, because this is a point which is put by those who hold the opposite view. If you take 15 rupees from a person in India and give him a sovereign, you have at any rate a contraction of the silver currency?—Yes, you have, it is true.

3770 Is not that the effect, as far as that goes?—You do not know whether the sovereign may not go into circulation, in which case it has not contracted the currency.

3771 You are contracting what I may call the dangerous part of the currency, the currency as to which you have a liability, because the sovereign is carrying its value with it?—You are creating no monetary stringency, but if money is wanted for export it will create monetary stringency, it will adjust the balance of trade in that way.

3772 Would you say that if the Government of India were again faced with a crisis, as it was in 1908, it should refuse to give up the gold it has in India for internal circulation?—It should certainly reserve its right, as it has reserved its right, and I think it should certainly be urged upon it, to issue that gold only for export. If it is in such a very strong position that it can safely give up the gold for internal circulation, very well, but otherwise it should reserve that right, and exercise it if needed, undoubtedly.

3773 As regards loans from currency about which you were asked, you said loans of that kind ought to be made on first-rate security, I think?—Yes.

3774 What had you in your mind in speaking of first-rate securities?—I had in mind Government paper in the first place. It is so difficult in India to find readily saleable securities of other kinds, you have not the same market in India that you have here.

3775 You are aware that in other countries the expansion of the note circulation is allowed against bills of exchange, are you not?—Yes, that is so.

3776 What do you say to that, in connection with India?—I never was sufficiently acquainted with the hundi market to be able to express any opinion. It is the only market I was not familiar with.

3777 Lastly, as regards a State bank or a central bank, I do not know that this question has been put before the Commission yet, but one has heard a great deal in connection with these proposals of the difficulty that would arise as a consequence of the rivalry, or the distinction in interests, between the different parts of India—between, for instance, Bombay and Calcutta, do you think that is a serious difficulty in the way of a State bank?—It should not be a serious difficulty, but it always has been a difficulty. I think it was the rock upon which the scheme foundered in the previous case—in 1900 I think an attempt was made to found a central bank.

3778 Do you think it is a difficulty which can be got over?—I think myself that it would be a great advantage if the three Presidency banks were amalgamated, without any attempt to raise a large additional capital as is suggested, and upon which it would be difficult to pay dividends. I think the union of the three banks would be very preferable.

3779 How would you provide for the representation of those different interests, if you say that is a difficulty on which the proposals foundered on a previous occasion, how would you avoid it, or get over it?—I think it would require a diplomat rather than a merchant to deal with that question.

3780 (Sir James Begbie) In the matter of Council bills you have stated objections to the proposal that the bills should be sold only at 1s 4d, and you have made the remark that the Secretary of State would always be the last to be served if he held to the 1s 4d?—If he held for any fixed price, yes. If he holds for any fixed price it practically amounts to this, that there is a permanent and standing offer in the market at such a price, and therefore every wise man will endeavour to transact his business at a rate which is a little, ever so little, better than that.

3781 Is not the Secretary of State the last to be served when exchange conditions are not favourable, whether he holds out for a fixed rate or not?—When exchange conditions are not favourable, and there is no demand for Council bills. If there is no demand for Council bills, there is very little demand for remittance to India possible.

3782 Therefore he is left?—He will be left as soon as he gets down to the minimum 1s 3½d. He need not be left, because he can continue to sell at any price, but he does it at his peril, because it will come back in the shape of sterling drafts from India at a profit.

3783 You are not in favour of the sale of drafts against the Indian branch of the Gold Standard Reserve, nor against new coinage except at specie point, I understand?—The specie point is very difficult to fix, I admit, and the specie point in India is different from the specie point in Egypt and Australia. My only reason is that the addition of new currency to the existing currency should be made in the last resort, and you can only arrive at the last resort by having a maximum price and the market paying that price.

3784 In the case of sales of bills against, say, silver coinage would you suggest that a change should be made in the way these bills are sold? Is there any object in putting them up to auction, for example?—If you put them up to auction you do not fix your specie point, you auction them the same as Council bills.

3785 That is the very object in offering them by tender, is it not?—They would fetch no more than old

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rupees such as are already in the Treasury. It is indifferent to a man who is buying rupees in India whether he gets new rupees freshly coined or not.

3786 I am putting the case that the Government are selling bills against a silver coinage?—In other words, it supplies its needs with Council bills, and has no more to sell, is that what you mean?

3787 I am supposing it is only selling against the silver coinage?—A man would not do that so long as he has other balances to draw on, therefore we will assume that the Secretary of State has exhausted all the other available resources, and then he should hold on for the specie point, in other words, he should then fall back upon the law, and the law is that if you tender sovereigns to the mint in Calcutta and Bombay, you receive 15 rupees for each sovereign, or that if you tender gold to the Paper Currency Department you receive rupee notes at the same rate. If he is asked to act under that law in this country, then he should not sell those 15 rupees for 19s 8d, but he should sell them for the full sovereign plus the carriage. It is complicated, I know, by the gold which goes from Egypt and from Australia. It is a very complicated and a very difficult point, but that is just my general idea of it.

3788 Is there any object in offering these bills for tender? Would it not be enough if remitters simply came and said they wanted so much, because the rate is pretty well known, and you can always tell what the rate is? Practically it would be very similar to what is done in ear marking gold, would it not, at 1s 4½d?—It is practically the same thing, only in the one case you are taking rupees which exist in the Paper Currency Department, and in the other case you are taking new rupees which are to be coined specially. My only reason for making the difference is that the Government should only in the last resort issue 15 new rupees for every sovereign, and they would only know when the last resort has been arrived at by the willingness of people to pay the top price.

3789 We have had it in evidence that the India Office, in selling bills, have not paid any attention to the specie point?—That has been alleged.

3790 They admit that they have sold bills, and will go on selling bills so long as they keep exchange between the two specie points, do you agree with that?—I think they certainly should meet the market, and of course make the best rate they can for the India Office with regard to any rupees which are part of their balances, either against Council bills or against excess collections such as we have had of late. Certainly they should meet the market.

3791 Or against a Gold Standard Reserve in India?—I think in my précis I have included the Gold Standard Reserve as a thing which should be held at the gold point, but on carefully thinking it out since submitting my précis I would like to withdraw that, because I see that in issuing rupees from the Gold Standard Reserve in India the Government is getting its pound's worth of gold, and therefore it is not holding only one-third as it would do in the case of a further issue of rupees.

3792 It is a fresh addition to the currency, is it not?—It is in a way. It was originally a fresh addition to the currency which has returned as against sterling drafts. I am now speaking not of the original six crores, but I am speaking of those transactions that took place in 1907-8. So far as regards those original six crores, certainly my reason would apply if they were new rupees. I am now speaking of the currency reserve as a working concern which absorbs and releases them. As regards any old rupees which have been absorbed, the Government, I think, should issue them as freely as it could from the Treasuries, but with regard to new coinage, not.

3793 You would not apply the specie point, then, to those old rupees?—Not to the old rupees which had been absorbed in the 8½ millions which had been remitted.

3794 Regarding the establishment of a State bank, would you say there would be unfair competition with the exchange banks if the State bank was empowered to remit on account of Government the home charges

amounting approximately to about 24 crores, say? I ask the question because you put down in your précis the fact that the total foreign trade of India last year was about 485 crores. If the State bank remitted the Government's home remittances, which amount to, say, 24 crores, would you call that unfair competition?

—At present the Council bills are a very big factor in the operation of exchange banks. They are most useful, we know, and in all probability if they were handed over to a State bank it would be a certain inconvenience and interference with the established banking practice of the exchange banks. It would give rise to objections and jealousies, I think. Moreover, if the Fowler Committee were right in specifically limiting the operations of the State bank to internal purposes only, it would be exceeding their recommendation to give it a right of entry to the London market.

3795 You consider the size of the Gold Standard Reserve is at present ample, taking into account the very large amount of gold in the Paper Currency Reserve?—Yes.

3796 But you do not consider the Gold Standard Reserve by itself is ample to secure stability of exchange?—No, because the Gold Standard Reserve contains no less than four millions which are in silver, so it is only about 18 millions strong, and I do not consider 18 millions of gold is a sufficient Gold Standard Reserve at present. But coupled with the enormous holdings in the Paper Currency Reserve, it is ample and more than ample.

3797 You stated that with a properly constituted Gold Standard Reserve held here, there should be no need for holding here also any portion of the metallic reserves of the Paper Currency Department?—You would be holding two funds for one and the same purpose in that case.

3798 Do you think that under any circumstances a portion of the Paper Currency Reserve should be held in London?—In any circumstances? It has been urged frequently that it is serviceable in expediting the purchase of silver for currency purposes. That could apply to only a small proportion of the gold which might be held. At present it is not very large, but it might be, and has been larger, I think.

3799 It has always been held that it might be useful in the case of a crisis?—It would be equally useful in India, seeing that the Government reserves are ultimately open only for issue to remitters or exporters.

3800 Do you think there is some danger of gold held here causing some discredit to the note issue in India?—Causing discredit on the ground that it is not sufficiently secured?

3801 On the ground that the money intended to redeem the notes is not available on the spot?—Yes. One of my reasons is that the Paper Currency Reserve is primarily intended to secure the convertibility of the note, and therefore it should be held in India, but as the note is payable at the option of the Government in silver, it is not necessary that gold should actually be there against the notes. They are not gold notes so far.

3802 No, but still you have power to issue gold?—If the Government wishes and considers it safe to do so, yes, but in a crisis they might not. They could issue silver only.

3803 I do not know whether you are aware of the fact, but we have had experience in Bombay of serious runs on banks. The banks have been discredited for no good reason, and there has been a run upon them. That has happened more than once. There is the fact that people do take fright sometimes and make a run on a bank, so that we might have a similar instance of discredit in the case of the note issue. It is, therefore, a question in my mind whether it is advisable to hold the gold of the Paper Currency Reserve in London?—I think not, I think it should be held in India. But you must have sufficient gold reserve here, otherwise I do not consider your present Gold Standard Reserve would be sufficient.

3804 The gold in India would still support exchange?—Yes, undoubtedly for internal purposes but it might not for exporting.

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3805 (*Chairman*) How would you propose to secure that gold issued in India in the circumstances you are contemplating should be used only for the support of exchange?—I do not know what measures would be necessary, but I know that it is done. Holland is doing it at present. She is supplying gold freely for export, but she does not bind herself to supply it for internal purposes. I suppose it is done on certificate, possibly in the same way that opium is shipped to China on certificate.

3806 (*Sir James Begbie*) I gather that you are not in favour of doing anything to encourage the use of gold as currency?—No, I am not in favour of the Government encouraging it. I do not think it is necessarily a function of the Government to do that, but if the people wish to have a certain currency the Government should not interfere.

3807 The people should get gold if they want it?—If they wish it, and the Government should neither specially push it on them, nor arbitrarily interfere with their right to get it.

3808 Have you heard that sovereigns are now freely circulating as currency in certain districts?—Certainly, that is so.

3809 Does that fact not prove to you that gold coins are not unsuitable for circulation purposes in India?—I do not think they are unsuitable. Historically, I believe it is a fact that there was a gold circulation.

3810 Do you think it is possible that in other districts where hitherto rupees have been the only or the principal medium of exchange, a change to the use of gold may develop?—I think it is possible.

3811 Let us suppose a position similar to that which we had in 1908 after the crisis of 1907, when the gold reserves fell to a low point and the reserves of rupees were high. I suppose you would agree that such a situation might again be experienced? At such a time the natural desire of the Government would be to see the flow of currency reversed, surplus reserves of rupees re-issued to the public, and the gold reserves restored?—Yes, that would be so.

3812 Suppose the position has changed in this respect, that a great demand for gold as currency has developed, if the currency tide were reversed, the public demand might be for gold coins?—It might.

3813 How would you deal with a situation like that with your reserves full of rupees?—Do you mean would the Government tender notes? The public could import sovereigns, and they are doing so at present. It would not affect the Government if they imported sovereigns in exchange for their produce.

3814 But how would the Government get the gold reserves restored if the gold went into circulation?—If the Government never issued the rupees it would never want the gold backing to support them, because they would be locked up in the Treasury.

3815 Then the rupees would be left in the hands of the Government?—*Pro tanto* the Government liability would be lessened by the amount of gold that is given out for rupees.

3816 The gold reserve would cease to exist then?—If India became a gold currency country the position might not be unlike that of the United States, where they have an enormous amount of dollars which cannot get into circulation which are in the cellars of the Treasury. It rests entirely on the habits of the people. It may come, but if it does it will probably come gradually.

3817 You stated as an objection to the 10 rupee coin that it might check the circulation of the 10-rupee note?—I think so.

3818 Do sovereigns check the circulation of notes?—There is no comparison there.

3819 Not as regards the amount?—The small 10 rupee note is less than a sovereign, and the larger notes which are used for trade purposes do not compete with the sovereign in identical amount. If you had a coin which actually competed with an existing note it might possibly be—I do not know, and I should not like to make predictions about things Indian—that it would affect the circulation of the note to which it was of equal value.

3820 But so far the note circulation is not affected?—So far it is not. I would rather attribute the increased circulation of the note in India to the abolition of the circles—that is, to the universality of the note, than to the mere fact that it is due to other causes.

3821 You also fear that the 10 rupee piece might become popular as a new ornament and disappear from circulation?—It possibly would. That is the opinion of some of the most persistent attackers of the present system. "The Times of India" for instance.

3822 Even if that proved to be the case, would it not be an advantage in so far as it reduced the necessity for fresh silver coinage?—Not if it disappeared—only if it passed into circulation.

3823 Instead of issuing fresh silver coins, if the 10 rupee coin went into the hands of the public?—And became an ornament, it would not affect the circulation.

3824 But it would save the Government the necessity of coining?—How would it?

3825 If, instead of coining fresh rupees they issued 10 rupee pieces?—No, because they would have to issue 10 rupees for trade purposes, but if they are issuing 10 rupee coins which become ornaments on a woman's neck—

3826 Does it make any difference whether the coin goes into circulation or into hoards?—I think so on exchange. The rupee will come back possibly for export, the ornament is less likely to do so except in the case of famine, when the ornaments do come back we know. I think there is a great difference between the two cases, if I may respectfully suggest that.

3827 (*Sir Shapurji Broacha*) You say the Government must not allow great accumulations of money, but that they should deal with the surpluses of India as surpluses are dealt with in England, and let them go to a sinking fund for the reduction of debt. Say, for instance, that they have a surplus of 7 millions this year and apply it to liquidate debt, although they may have shortly to borrow 7 millions, and are wanting 15 millions or 12 millions for public works would it not be a great advantage rather than reducing taxation to go on building with the surpluses public works which are so fruitful?—In the first place, you say, Would it be advisable to pay back those debts if you are going to raise fresh debt shortly? I think I have already answered that. In reply to Sir Robert Chalmers I said if it is a near liability no, but if it is a liability of two or three years hence, then undoubtedly that should not interfere with the proper use of the sinking fund.

3828 India wants 12½ millions or 15 millions for public works every year, so it would make very little difference on the whole. These large surpluses are accumulated owing to certain causes. Take the opium, for instance, the Government could not have reduced that?—No.

3829 Then there was about 7 millions of revenue which the Government could not have anticipated so that out of a surplus of 22 millions 13 millions belong to two items which the Government never anticipated?—But the fact is that according to their own apology or excuse they hold up these large balances while at the same time borrowing or renewing debt.

3830 That would be a very complicated transaction from a merchant's point of view and a banker's point of view?—Very. I think they are wrong, and I venture to submit to the Committee that it is an apologetic excuse but not a sufficient defence.

3831 Should they use their surplus to reduce the debt, or to build railways and other public works?—They did neither one nor the other, and I have submitted a case where Sir James Westland did both.

3832 What did he do?—He had a surplus of 10 or 11 crores in 1894-5 owing to his holding up of Council bills in 1893. The result was that he was landed with 10½ crores of rupees stored in his treasuries which he solemnly undertook not to spend on railways or other purposes, because it would interfere with his currency scheme. He pledged himself to that in his budget of 1894-5, I have his exact words. Within 18



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months he had spent those 10½ crores (which was a distinct breach of faith that we ventured to accuse him of at the time) on railways partly and partly in avoiding rupee loans

3833 That is a long time ago?—Do you wish me to say whether we should use that surplus for railway or other public works? If you mean to say that a surplus which shows itself at the end of a financial year is to be employed in public works, then I say that that is a most vicious and demoralising way of budgeting. All public works, railways, &c., should be duly set forth in the budget, and should be criticised in the Legislative Council.

3834 How would you budget the next year's railway revenue—on the basis of this year's, I suppose?—But you always estimate before you say what you can allow for railways year by year

3835 Take two consecutive years, if the railways have earned a certain amount in the first year, I suppose you would budget for the same amount the next year in order to be safe, but at the same time you are not sure what the monsoon is likely to be?—I am not thinking of the earnings, I am thinking of the expenditure. Assume that we have budgeted for an expenditure of 12 millions on railways for this next year, and that at the end of the year the Government finds itself in possession of a surplus of 5 millions, are you suggesting that they should spend that on further railways or public works? It has not been budgeted for, it has not been agreed to, it has not been criticised or debated in the Legislative Council, and I think it is wrong

3836 (Chairman) May I put the case to you as it appears to me, which is not exactly as you see it? Supposing the Government has a railway programme requiring 12 millions and they budget for a surplus over their current expenditure of, we will say, 5 millions, out of which they propose to pay a part of that railway expenditure, and they propose to borrow the other 7 millions required to carry out the whole of it. As the year goes on the revenue comes in so well that they find they have a surplus not of 5 millions but of 12 millions and they then spend the extra 7 millions of surplus in that railway construction. Why should they pay off debt with it on the one hand, and borrow 7 millions in the London market for railway construction with the other?—Was that not dealt with in my previous remark, that if the borrowing is near, certainly they should avoid the borrowing? Then it is the same thing as paying off debt, but if it is a question of wanting to borrow two years hence, then I say that should not be allowed to interfere with your paying off floating or other debt

3837 Do you suggest in the case of the balances of recent years the Government in deciding what to do with them consciously postponed their use for two or more years?—I do not know the mind of the Government, but I know what happened. I know that the balances steadily accumulated year after year for two or three years, and that it was not owing to extraordinary circumstances that these additions were made, because the existing balances were due to known circumstances

3838 Was not the unexpected balance of the first year worked off in the main pretty quickly, the high figure at the end of the second year being the result of another surplus, not of the retention of the first surplus?—The total net surpluses were about 10 to 11 millions according to the statement, but the balances were higher than that, the balances were 18 millions to 20 millions, I believe, at one time

3839 (Mr Gillan) I do not know whether you think that the railway expenditure is suddenly made without being budgeted for. In the case you put that is not what happens. The extra surplus of one year is carried forward as a balance to start the next year, and it is on the basis of that balance that the railway programme for the following year is built up?—That I would agree to, but that surplus was carried forward in the shape of a cash balance which grew, in other words whatever way you look at it these balances were not expended

3840 What has happened—have they disappeared?—This year they have disappeared—after four years as a matter of fact

3841 They have finally been reduced?—Finally

3842 And in the meantime you have maintained a railway programme of 9 or 10 millions a year with practically no borrowing?—The question, of course, suggests itself to one's mind how far this rapid reduction of the balances has been due to the clamour that has been raised

3843 (Sir Shapurji Broacha) Do you say the gold against the currency circulation should not be kept here?—I think as the sole purpose of the currency reserve is to secure the convertibility of the note, necessarily that implies that the metallic reserve should be kept where the note is

3844 What difference would it make when the holder of the note knows that so much in silver and so much in gold is placed there and in England? You are not afraid, are you, that all the gold will be taken away in a day and there will be no time to send the 7 millions to India?—I am not afraid, and I do not think many people are really afraid, but it has led to very great outcry

3845 There are a great deal too many outcries which are created not by the people but by outsiders?—The result of the outcry is this Commission

3846 What difference does it make? Is not the first line of the defence of exchange not to give sovereigns against rupees?—My own idea is that that is a mere phrase. The first line of defence for a currency system which is not based on a gold currency is undoubtedly the fund which is raised to secure the exchangeable value of the rupee. There fore the first line of defence for such a scheme exists in the Gold Standard Reserve

3847 Is it right to disturb it so long as you have the Currency Reserve to pay against it and maintain the exchange?—I think I have said I would not disturb it until the Gold Standard Reserve is placed at a sufficient figure

3848 What good is there in sending that seven millions to India?—What benefit do you derive by keeping it here?

3849 At present I should keep it here. You can draw on that gold, but then you have to pay double expenses?—At present—I quite agree, and I have said so

3850 There is no great force, then, in the argument that that gold should be in India and not here?—The objection I see to keeping it here is that if you once get a sufficient Gold Standard Reserve to secure the convertibility of the rupee it is not necessary, and it is certainly necessary, or ought to be necessary, where the note is circulated

3851 It is kept here by law, they passed a law to that effect?—Not to keep it here, but that it may be kept here

3852 The people of India know that law?—Yes

3853 And the people have not been very unearg to take those notes, because the circulation is increasing?—I admit that

3854 Do you think that the 10-rupee gold piece would check the circulation of the 10-rupee note?—I think it might

3855 The circulation of this 10-rupee note has increased the total circulation, would it not be a waste therefore, to have 10-rupee gold pieces and drive away 10-rupee notes?—Quite so

3856 If for no other reason than for the loss in weight?—Quite so

3857 I suppose you know that when Lord Goschen spent about 900,000l in restoring the weight of the gold coins about two-thirds went into the abrasion of the half-sovereign pieces, and only about one-third into the other?—I know that

3858 The smaller the coin the more danger there is in that direction?—That is true

3859 If the people once know the value of the note they will know that a 10-rupee note will bring them as much as 10 rupees in gold or 10 rupees in silver, that is to say it will buy 10 rupees worth of goods on the market?—Yes

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3860 It will do that just as well as a 10 rupee gold piece?—That is the very essence of a paper currency

3861 So there would be no great benefit in having a 10 rupee gold piece?—None

3862 While, of course, there would be an absolute loss in the weight of the coin?—I see no need for an alteration

3863 I think you are not very strongly in favour of a State bank?—No, I am not

3864 You see difficulties in the way?—I see great difficulties

3865 You say a State bank would have one advantage when it is borrowing money from people, that it could assure them of the safety of their money?—A State bank would have a prestige if it were recognised as a State bank

3866 Do you know that such banks do not allow interest?—They take deposits

3867 Most of the State banks do not allow interest?—A bank like the Bank of England would not allow interest on deposits

3868 The Bank of France does not allow interest?—The Bank of France has a special business of its own

3869 Never mind what you call it, but they do help the small persons by borrowing their money and ensuring them the safety of their money?—I have had conversations and correspondence on this subject, and it is held that the Shroffs would be largely depositors with a State bank, which they are not with the Presidency banks. How far that would go Sir James Begbie can probably tell the Commission

3870 I suppose the rules for lending by the State bank would be the same as the rules for lending by the Presidency banks?—I would not like to predict what the rules would be

3871 It would lend on authorised trustee securities?—I cannot say. That is entirely a thing in the air so far

3872 If that were not done by the State bank it would in a way weaken the strength of those securities?—The charter of the bank would have to be drawn up and agreed to. I cannot say what it would contain

3873 Do you think that in lending small sums as the Bank of France does, it would be any benefit to investors?—The Bank of France advances down to 150 francs, I think

3874 They will discount a bill down to 25 francs, they will even go down so low as 5 francs. Would a State bank do that?—Would they advance in that way for the benefit of the interior trade or industry?—I pointed out that it would take a very well trained and a very large and very expensive staff to do it in India. I doubt whether it would be done

3875 I agree it would be very expensive, and that it would require a very large staff, and I suppose the Government would not save much, I suppose, for instance, that all their travelling staff in the accounts department and other departments would still have to be maintained?—That I cannot say

3876 (Mr Keynes) Do you think it possible that a State bank might attract a new class of depositors?—I think it is possible

3877 Is it possible that the co-operative societies would themselves bank with the State bank, and that it would be a convenience to them?—I do not like to make any prophecies at all about that

3878 If the State bank were to enter into exchange to the extent of carrying out the Secretary of State's remittances and no further, that would involve some interference with the existing interests of exchange banks, would it not?—It would involve some interference

3879 Is this a case where vested interests ought, in your opinion, to be respected?—That is an exceedingly difficult question. I have a great respect for vested interests in any walk of life. If the Government is convinced that this would be for the benefit of the people as a whole they can override any vested interests. It is merely a question for the Government, not for me

3880 That is a general principle, you have not any opinion as to its application in this instance?—No, I have not

3881 (Sir Ernest Cable) Sir Robert Chalmers, I think, put to you the question that perhaps the use of cheques might curtail the circulation of currency notes, from your experience in India, do you think that cheques will be used at all throughout the whole country beyond the Presidency towns?—Not within any period that I can look forward to myself. They will be confined to the Presidency towns' business

3882 And that is very nearly covered by cheques, I should think?—I supposed so until I read the complaint I have previously mentioned

3883 Still, the fear of curtailing the currency note issue by reason of the increased use of cheques is rather problematic, after all?—I should think cheques would rather be an addendum to the note circulation than a substitution for it, granted a continuous expansion of trade

3884 A good deal has been said about the surpluses of the Government in India and their application. I believe it is a fact that the development of the country would have been crippled very much unless those surpluses had been devoted to productive works. That being the case, do you still object to those surpluses having been created, so to speak, by taxation?—What has happened apparently is that the revenue of the Government of India has been anticipated by a year or more, in other words, the Government has collected more for a given year in some shape or form, from opium or from railways or from the taxpayers, than it should have done, in other words, the taxpayers of the country have been deprived for that one year, or for a longer period, of the use of their own income or money, as the case may be—of their own products the Government having deliberately withdrawn that from the taxpayer. The rupee with which he paid his tax is only a token, but what has really happened is that an equivalent amount of produce has left the country as against those taxes, and the taxpayer has lost by paying his taxes before they were due

3885 There is a school of finance in India who hold the opinion that a steady unfluctuating rate of taxation, not reducing immediately there is a surplus, but keeping it as steady as possible, operates better for the welfare of the inhabitants as a whole, because the surplus is returned to India in the shape of productive works from which the agriculturist benefits. You do not hold that view, possibly?—I do not object to the revenue being kept on what you would call apparently a normal basis, and I do not object to taxes not being reduced in such circumstances, but I do object to taxes having been imposed when events have proved that with a little more optimism they would not have been required

3886 With regard to the loans by Government to the Presidency banks and others, you suggested that the Government should lend at somewhat below the bank rate, otherwise the market—you used these words—would not be tempted to borrow. It is not the business, you will admit, of the Government to tempt people to borrow their money is it?—I agree, only I think the question arises in connection with the duty of the Government to assist trade by loans in India as well as assisting the London market by loaning in this country. That is how I put it. If you make it the duty of the Government to assist trade by loans, then you certainly must make it the duty of the Government to assist it at a rate which will be a profitable one to the trade that it is helping. If the Government is going to exact the uttermost furthing it puts an impediment on the free use of its balances. I think that Lord Faber put the matter on very sound ground when he suggested practically putting them up for tender. I think that would quite meet my views, and it is a much better way of putting it than I had myself ventured to suggest

3887 It is a notorious fact that India cannot borrow enough money for its development on the terms of the present moment. Do you think by increasing the rate of interest we should get all we want in that way?—India is not singular in that respect in these times, and the loans which were raised in India in rupees stand at

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[Continued

a very high figure comparatively I have always been inclined to think of late years that the Government might often borrow better in India and increase its balance in India rather than face the very much oppressed London market

3888 Have you any remarks to make on the subject of the largely increasing exports of gold to India? Do you think, for instance, that they would seriously interfere with the sale of Council drafts?—They have not done so

3889 And you do not think that they ever will do so?—I do not see how they can if the Secretary of State meets his market freely They will never ship gold if they can get Council bills at a better rate I have only mentioned the specie point in connection with new coinage, remember Otherwise I should suggest that the Secretary of State will do the best for himself if he meets his market freely

3890 I gather generally from your memorandum that if existing interests are safeguarded you have no objection to the institution of a central bank or a State bank?—No, certainly not My only objection to any State aided institution is that it might interfere unfairly with private enterprise I think that what is wanted in India, as in most other countries, is more private enterprise and less State interference

3891 It is suggested that because there was no popular demand—I think those were the words—for such an institution, therefore it should not be given, but I would ask you, as a man with Indian experience, whether in most matters in India there is not very little popular demand?—In what way am I to understand that popular demand—on the part of the European community?

3892 I mean there is very little expression of opinion?—Very little Opinion there is not focussed in the same way as it is in this country

3893 I think I heard you say that you had no experience of the hundi market?—I have no personal experience of it

3894 So perhaps it is no use for me to ask what is your opinion as to the value of the hundi as a document?—As a security, no

3895 You do not think it is particularly sound?—Not being acquainted with it, I would rather not answer

3896 When the Fowler Committee used the term "gold" in connection with the Gold Standard Reserve do you think that they meant to include sterling securities?—No, certainly not I think their report is extremely clear and decisive May I just read you two or three words that I had noted about that point? The following words seem to me quite decisive on that point In paragraph 60 of their report, speaking of this Gold Standard Reserve, they say it is to be kept "entirely apart from the Paper Currency Reserve and the ordinary Treasury Balances" That implies, I take it, absolutely, that it was to be kept in India, because otherwise, if it was to be kept in another country, why put in the words "entirely apart from the Paper Currency Reserve and the ordinary Treasury Balances"? It must be apart if kept in England Therefore, I think the very fact that they said keep it apart from those things which existed in India must imply that it was to be kept in India With regard to what it consists of, the following words taken from paragraph 59 seem to me rather conclusive, "if the exchange showed a tendency to fall below specie point, the Government may remit to England a portion of the gold which it may hold" I can only read that to mean if they had gold in India they should remit gold back, and again, "when it has accumulated a sufficient gold reserve, and so long as gold is available in its Treasury, it might discharge its obligations in India in gold"

3897 And that was the general commercial opinion throughout India?—That it was to be held in gold? I will not say whether I consider it an unwise or wise system, but I think the present system is working better than the one suggested by the Fowler Committee would

3898 (Chairman) You said just now, in answer to Sir Ernest Cable, that you thought the Indian Government might with advantage borrow more in India and less in London?—I do think so

3899 You added that you thought that what India, like a great many other countries, suffers from at the present time is an excess of Government enterprise, and that it would be an advantage if more were done by private enterprise?—I think that is always the case, especially in India It would be an advantage if more opportunities were given to private enterprise

3900 Do you think that the Indian Government could reduce their need for borrowing for development purposes if they made the terms rather more attractive to private enterprise to carry out the same works?—The accusation has been made for years, and repeated, and I have read a great deal on the subject, that the promoters of railway enterprise have great trouble in securing concessions for the construction of railways in India That has been a complaint of long standing How far it is justified I do not take upon myself to say, but that it has existed, and has been repeated, is a fact

3901 Have you heard much complaint, or any complaint, as to the use by the Indian Government of their rights of pre-emption?—When railways have been taken over by Government there have been loud complaints at times

3902 Do you think that some change of policy in those respects would lead to the influx of private capital in larger amounts than has been the case?—Now that the exchange value of the rupee has been secured, I certainly think it would Previously, with open mints and an unstable currency, I should not have thought so

3903 You would desire the Indian Government, then, I gather, to take into their serious consideration whether they could not attract more private capital, and so lower their own needs for borrowing, by some revision of their policy in this respect?—Yes, I do

3904 You spoke in your paper (Appendix XIX, page 544 paragraph 6), and I think in answer to Sir Robert Chalmers, of the greatest need of the present time being a code of clear regulations on the subject now engaging the consideration of this Commission?—Yes

3905 In answer to Sir Robert Chalmers you suggested certain regulations in respect of the Gold Standard Reserve I do not think that you mentioned any other subject on which you thought new regulations desirable?—It was in connection with that part of the paper headed "Gold Standard or Gold Currency," (Appendix XIX, page 543) and I was thinking solely of the maintenance of the rupee and the regulations necessary for that end in making those remarks

3906 The regulations you had in mind were such regulations as you have spoken of in dealing with the Gold Standard Reserve, were they?—Yes

3907 You wish them, I think, to be statutory regulations?—I wish the Government to undertake, either statutorily or in any other binding form, its responsibility with regard to this currency

3908 You have also expressed the desire that the amount of the Gold Standard Reserve should be fixed, not by mere guesswork, but on some definite principle or analogy?—Analogy, principle, or experience

3909 You have told us at what amount you would fix it if you followed what you called the analogy of the English bank?—Yes, I have

3910 But I do not think you have told us at what amount you would fix it if you acted in the light of the experience of the crisis of 1907-8?—I think it figures out to very much the same Taking the loss of gold at 17 millions, plus about 3 millions Council bills, the shortage for the year speaking from memory, was about 20 millions or 21 millions, and I said there should be 50 per cent. for apprehension, which would run to 30 millions again, which would be the same figure as I got by the other formula.

3911 And of that you would in the same way keep half in actual gold?—I suggested that as a basis.

The witness withdrew

At the India Office, Whitehall, S.W.

TENTH DAY

Thursday, July 3, 1913.

PRESENT

THE RIGHT HON AUSTEN CHAMBERLAIN, M P (*Chairman*)

Lord FABER  
Lord KILBRACKEN, G C B  
Sir ROBERT CHALMERS, K C B  
Sir ERNEST CABLE  
Sir SHAPURJI BURJORJI BROACHA

Sir JAMES BEGGIE  
Mr ROBERT WOODBURN GILLAN, CSI  
Mr HENRY NEVILLE GLADSTONE  
Mr JOHN MAYNARD KEYNES  
Mr BASIL P BLACKETT (*Secretary*)

Sir ALEXANDER McROBERT called and examined

3912 (*Chairman*) Would you be good enough to tell me briefly what your Indian experience has been?—I have been 29 years in India, and I have been the whole of that time engaged on woollen manufacture. I have been chiefly resident in Cawnpore, but I also have a close connection with an associated institution in the Gurdaspur district of the Punjab.

3913 I think for some time you were president of the Upper India Chamber of Commerce?—I was.

3914 You were also a member of the Legislative Council of the United Provinces for eight years?—Yes.

3915 Do you appear before us to day in a representative capacity?—Yes. I have been nominated by the Upper India Chamber of Commerce.

3916 May I ask you first about the balances? What do you say about the cash balances in London in recent years?—From the returns I find that the closing balance on 31st March 1910 was nearly 13 millions, the following year it was 16,700,000*l* and in 1912 it was 18,400,000*l*. Then apparently in the course of last year they began to use up these balances, and it was reduced to something under nine millions on 31st March 1913, the normal working balance, as I understand, being approximately four millions.

3917 Do you regard the recent balances as unnecessarily high?—It is a little difficult to answer that yes or no, because it is like being wise after the event. I have no doubt the India Office uses a wise discretion in keeping its balances up, and it seems a little hard upon them now when we know all about it to say that they should have done something different.

3918 You do not blame them, I understand, for not having foreseen that their balances would be so high but looking back on events with the wisdom which comes afterwards, you think they were higher than they needed, does that represent your view?—As regards the criticism that I would offer it is really in a way limited to what seems to me the somewhat unnecessary renewal of India bills during that period.

3919 Do you think outstanding India bills might have been paid off?—I do think so. Might I mention in what respect I find that they might have been paid off, even assuming that the India Office could not see into futurity?

3920 Please?—I find that the first year of what might be called an abnormal balance was the year ending 31st March 1909. The balance then was just under eight millions, which is about four millions more than is regarded as a normal working balance. The following year it jumped to 12,800,000*l*, then the figures I have just mentioned follow—16,700,000*l* and 18,400,000*l*. The figures I have here relate to 1910-1. During the year 1910-1 after having started with four millions in excess of the normal working balance the loans floated were 7½ millions and the debt discharged only 1,800,000*l*. During that year India bills were renewed in April to the extent of one million in June to the extent of 2½ millions, and in December to the extent of 1½ millions. Apparently

the following year, starting with a surplus balance of 10 millions, these same bills were once more renewed with the exception of half a million, that is to say, in April there was a million, in June two millions, and in December 1½ millions.

3921 I understand you to suggest that the India Office might properly have used a part of those surplus balances to pay off those bills as they fell due?—Yes, my suggestion is that that might have been done.

3922 It might have been done with advantage in the first of the two years, and if it had not been done in the first it should have been done in the second?—It might have been done in the second.

3923 It has been put to us in evidence on the other side that this renewal of bills or raising of loans was done in accordance with the budget estimates, and before the unexpectedly favourable results of the financial year were known, what would you say to that?—I find that Mr Montagu, in the House of Commons on 30th July last year, explained that the balances were largely due to under estimating in India, meaning I take it, under estimating revenue. It seems fairly clear that he was substantially correct. At the same time the India Office knew that they had these opening balances.

3924 Do I understand you to think that with the knowledge they had they might have revised the estimated programme, and it would have been wise to do so?—I think so.

3925 Have you ever considered whether the date at which the Indian financial year begins could be altered with advantage, from the point of view of enabling the finance minister to estimate more accurately the prospects of the year?—I have not considered the point.

3926 I am right, am I not, in thinking that the realisation of the estimates in India depends almost entirely upon the results of agriculture?—Precisely.

3927 And therefore on the weather?—Yes.

3928 And that the estimates have to be made at a time of the year when the weather is still impossible to forecast?—Quite so.

3929 Have you any objection to the system of lending out Indian balances in London?—No, I do not think I have. It seems to me that since the balances existed they were better in London than anywhere else, they could not have been used in India and they could be used in London. Apropos of those balances, a certain income was derived from them so that really the only loss, assuming that they had paid off the bills I speak of would be the difference in the rate.

3930 Did I understand you to say that the balances could have been lent out in India?—The balances in India are not available for the purpose of lending as they are in London although it seems to me that if the India Office can lend in London there is no reason why the Government of India should not lend in India.

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[Continued

3931 You would like, then, to see the balances in India made available for lending?—Whenever that is practicable, whenever the Government of India feel that it would be safe to do so

3932 To whom, do you think, they should lend in such circumstances?—I am inclined to let them lend to anybody who would give the proper security, but primarily I would say to the Presidency banks

3933 Would you be inclined to make a list of approved borrowers in India on the lines that have been followed in London, or to say merely within the limit of our means we will lend to anyone who deposits certain named securities with us?—I think that, at least at the beginning, I would certainly limit it in the first place to the Presidency banks, and perhaps the exchange banks if they care to have it

3934 I understand that from them you would ask security?—Yes, I would.

3935 What securities would you lend on?—Government paper

3936 Would you include Port Trust securities?—I think I should

3937 Indian railways?—I do not think any such securities are to any extent held in India.

3938 Suppose the Government had been in the habit of lending out up to, let us say, a sum of two millions in the busy season, and suppose they had done that for two or three years, and then there came a year in which their balances were not sufficient to enable them to make the loan, do you think that would have any serious effect upon the Indian money market or trade?—It might cause a little extra inconvenience until matters adjusted themselves, but in the end they would be no worse off than they are now

3939 You do not think that they would be worse off because they had come to expect this relief from the Government?—That, I am afraid, is more a matter for a banker to say. I should not like to express an opinion on that

3940 Do you not think it rather likely, if they had received this assistance from the Government in several years, and suddenly, in what was probably a rather difficult time, they found that the assistance was not available, that they would be inclined to criticise and complain of the Indian Government?—I think I would start rather with the assumption that it is hardly conceivable that circumstances could arise that would make it inconvenient for the Government of India to lend a million. The money market in India is extremely narrow, and the difference of a million one way or the other would make a vast difference in a so-called stringency

3941 At what rate would you propose that the Government of India should lend to the banks?—When the bank rate comes to 6 per cent., I should then consider the Government of India might come in and lend their balances at 6 per cent

3942 At the actual bank rate?—Whenever the bank rate goes above 6 per cent., I would let the Government of India give it to the banks at 6 per cent., no matter what the bank rate may be above that. The banks must make something

3943 Would you allow them to make the full difference between 6 per cent. and whatever was the bank rate at the time?—I would

3944 Even if the bank rate had gone to 8 per cent?—Quite so. I am not sure that, on full consideration, I would limit it to 6 per cent., but I think 6 per cent. would be a fair basis on which to start.

3945 In recent years I think the bank rate has only been for very brief periods above 6 per cent., do you remember?—During this last cold weather the rate has been steadily high for a good many months.

3946 Has it been 7 per cent. and even 8 per cent.?—It has not gone up above 8

3947 Is the rate a fairly universal rate over India, or does it vary very much, for instance as between Calcutta and Bombay?—Madras is rather higher than Bombay and Calcutta, but Bombay and Calcutta jump together with fair regularity

3948 Would you lend equally to each of the Presidency banks?—I would if they would give the same security

3949 Without regard to the particular local rate of interest?—Without regard to that, except that anything over 6 per cent. would be a point at which I would authorise the Government of India to begin to lend from their balances.

3950 I take it that this proposal involves the assumption that at the busy time of the year the Government of India would have surplus money lying idle in its treasuries?—Broadly speaking, that is the case

3951 Suppose that it came to the conclusion that it was safe to lend that money, then, under your proposal, it would lend it for about three months of the year, I presume?—I take it that if such a scheme were in operation, it would not be needed for more than about three months

3952 What would the Government of India do with the money during the rest of the year?—What they do now

3953 Leave it idle?—Yes.

3954. Suppose they once came to the conclusion that it was safe to lend it, might it not be worth them while to lend it for six months or 12 months?—If they could do so on terms that would suit them

3955 They could afford to take a lower rate of interest if they could lend it for 12 months than if they could only lend it for three months?—I think one must consider that if the Government of India is run properly, it would not have these surplus balances all the year round

3956 I rather gather that you think the balances in India as well as in London have been unnecessarily high in recent years?—I do not feel that very strongly

3957 Have you any comments to make on the system of reserve treasuries?—No, I think it is a very judicious arrangement.

3958 It necessarily locks up a good deal of Indian money, does it not?—It does

3959 Do you think that more is kept in these treasuries than is needed?—No, I do not

3960 I go now to another subject, but a cognate one. What is your view as to the suggestion which has been made for a State or central bank? Do you think that is a scheme which should be promoted?—I do not think myself that there is room for a State bank. My attitude to the proposal is not one of hostility, but I see difficulties in the way of carrying it out. To begin with, India could not utilise the capital which would be provided by a large State bank, I see some 14 millions are spoken of—India has no use for that

3961. Do you think that one central institution could meet the needs of the different localities, the different Presidencies, as effectively as the three existing institutions?—I do not think a central institution could by any possibility be as efficient in its working as the present Presidency banks are in their own localities

3962 From what you have said in the *precis*\* you were good enough to send me, I gather that you think a State bank would necessarily imply so much official control as practically not to relieve the Indian Government of any of its present responsibility?—That is my view

3963 Some people have thought that it would be a good thing if the management of the paper currency could be handed over to such a State bank, do you not share that view, I think?—I do not

3964 Nor do you see any advantage in transferring the management of the exchange business to a central bank?—I do not. I think it is done very well now

3965 Is it not a necessary result of the present system that separate reserves have to be kept for banking purposes, for currency purposes, and for exchange purposes, and that as long as they are separate reserves more money must be locked up in them than would be the case if one institution had all the responsibilities and maintained a single reserve to meet them?—That is to a large extent true, but it

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[Continued]

might happen that the drain upon both reserves came at the same time. If the Government of India were instructed to make its balances, no matter in what box they are kept, available for purposes of trade at the time the money is wanted, it seems to me that would meet the whole case.

3986 In paragraph 6 of Appendix XX (page 547) you say "Each of the three Presidency banks has evolved a practice adapted to its own environment, and their absorption by a State bank would in a large measure involve the sacrifice of the advantages to trade which this specialisation secures." I may take that as your considered opinion, may I?—It is.

3987 I gather that you attach importance to that, because both the conditions of the money market and the conditions of business vary so greatly in different parts of India?—That is so, it is due to the seasons being different and the crops being different.

3988 So that you think it of great importance that there should be local management?—Yes.

3989 In order that the policy of the banks may be directed to meet the local requirement?—I think so.

3970 You have told me that you are opposed to the transfer of the management of the notes to a bank, but suppose that that were to be recommended, do you think that notes managed and issued by a bank would have the same free currency that they have at the present time?—I do not think they would. At the first outset, anyway, they would be looked upon with suspicion.

3971 They would not inspire the same confidence as notes directly backed by the Government of India?—I do not think so.

3972 Under those circumstances would you anticipate that there would be considerable restriction in their use?—I would expect a restriction in their circulation.

3973 In that part of the country with which you have been most familiar—I think it is the Punjab, you say—are notes now largely in use?—They are not so much used in the Punjab as they are in the United Provinces, at least, that is my experience.

3974 Does gold circulate to any considerable extent in the Punjab?—Gold does circulate in the Punjab, I think, more than it does in the United Provinces, because in the country districts now it is very rarely that payments in gold for produce are objected to. The cultivators will accept payment in gold when previously they would only take silver rupees.

3975 When they are paid in gold can you follow the gold at all and form any opinion of what becomes of it?—One instance has suggested to me quite lately that it probably is being used for the purposes of hoarding. In Cawnpore we have a village with nearly a thousand houses for workpeople, and just before I left India in March one of our workpeople reported that his house had been robbed. I saw him, and he explained the property that had been taken, and he said it included 12 sovereigns. That seemed to me to be at least symptomatic of what was going on.

3976 Are sovereigns used in payment of wages in Cawnpore?—My own practice, ever since the sovereign was made legal tender, has been to pay all wages in gold as far as it would go, that is, so long as we could get gold. For about three years we could not get gold—about 1907-8-9—but when we can get gold we invariably used it for paying wages.

3977 May I ask why you made that rule? Why did you prefer to use sovereigns instead of notes, for instance?—It was in accordance with my personal sentiment. They did not like it at first, but I wanted to educate them.

3978 You think it an advantage then that they should use gold as currency?—I think on the whole it is.

3979 Would you explain why?—It is more portable, it is easier hidden away, and after all it is the standard of value throughout the world.

3980 It is more portable and more easily hidden away than silver?—That is so.

3981 But it is not more portable or more easily hidden than notes?—No, but the people who use

notes are hardly the people who would be using the sovereign.

3982 Why? Is it because the sovereign is too little, or too much?—The ordinary native—I am speaking now of the small man, the workman—does not handle notes much. It is metallic currency that he believes in.

3983 The general note circulation has very much increased, has it not?—It has.

3984 Do you think it might be further increased if the notes were entirely universalized, or do you think that the universalization of the higher denominations would have much effect?—If that were done it would simply mean that the Government of India would be financing all remittances, because remittances from one part of the country to another would be sent in currency notes, as that would cost nothing. If they were encashable at any treasury it would be the obvious form of remittance, just like a London cheque in this country.

3985 Therefore you would not recommend that course to the Indian Government?—I do not think that the Government of India should undertake the responsibility.

3986 Have you considered the possibility of extending the currency by means of a more elastic note issue?—I have not considered it very closely, but it seems to me that there really is no difficulty in getting notes when one wants them.

3987 At the present time the amount of the fiduciary portion of the notes is fixed by statute, I think?—Yes.

3988 Do you think that the fiduciary portion is as large as it ought to be, or might it, under present circumstances, be safely increased?—I think it might be safely increased.

3989 To what limit would you go, approximately?—I think, on the whole that a maximum ought to be fixed, and that maximum should not be worked up to except when there is some exceptional demand.

3990 One witness has suggested to us that instead of a fixed figure for the invested portion of the reserve there might be a maximum proportion, say 40 per cent, which, as you have just said, would not habitually be worked up to, but that the free balance of it should be made available for loans to trade in times of stringency?—What has happened in the past is simply this—that as the note circulation has increased enactments have had to be passed in order to increase the fiduciary portion, and, if instead of leaving it like that a percentage were fixed, then it would be unnecessary to pass these regulations, and they would act automatically.

3991 I want to ask you a question now about the capital expenditure of the Indian Government, do you think they might raise more in rupee loans?—I think they might.

3992 Roughly, to what extent do you think they could borrow in India?—I would not like to put a figure to it, but judging by the result of the last two loans, when they got over 96 in India and 83 in London, it seems to me that it would be very unwise to borrow in London so long as India was willing to give 96.

3993 Would you always prefer to borrow in India when the terms in India were more favourable?—India's revenue is in rupees, and as far as possible I think the debt should be in rupees.

3994 That leads me to the next question I was going to put to you. Suppose that the conditions are slightly less favourable in India than in London would you, for the reason you have just stated, pay a fractionally greater interest in India?—I think I should.

3995 I want to return for a moment to a question of the banks. Do you recommend any material changes in the conditions now prescribed to the Presidency banks?—In my previous mention that I thought they should be allowed to lend upon any marketable security in India. That is the only alteration that I should propose.

3996 You would not propose to give them access to the London money market?—No. My reason for

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[Continued

proposing that they should be allowed to lend upon any marketable security is that that is what they do in fact now. One of the regulations is that there must be two names to the document, and one of these names might be that of the office chuprassi, for all the Bank of Bengal cares. They do not want the second name, they know one name is good enough, and it is almost a subterfuge to have the second name. Moreover, it would incidentally have the effect of giving those firms of money agents, who charge one per cent for the use of their name under these circumstances, no excuse for doing it.

3997 As regards the sale of Council bills, I understand that, broadly speaking, you have no criticism to make on the present practice?—No. It has occurred to me sometimes that the sales might be held oftener than once a week. That is about the only difference I would mention.

3998 Intermediate bills are sold, I think?—Yes, they are.

3999 What would be the advantage of having the sales more frequently?—Sometimes people are rather anxious to know what the rate is going to be, and if they have got to wait a week for it, it keeps the strain up.

4000 You say in paragraph 13 of Appendix XX that you would suggest "that all sales should be put through at 1s 4d and all accounts kept on the basis of 1s 4d", what exactly do you mean by that?—When Council bills and telegraphic transfer are sold at anything over 1s 4d, I would put the difference to this reserve fund, and when the Council bills are sold at less than 1s 4d I would draw the difference from that fund.

4001 Would you create a special reserve fund to balance the exchange transaction?—Precisely, it would be a subsidiary reserve which would be first used.

4002 What would be the special object of that plan?—If a gold currency becomes really effective in India, it means that the profit from the coinage of silver would be reduced, because there would not be so many rupees wanted. Since my précis (Appendix XX, page 547) was sent in I have found that apparently the Government of India, or perhaps I should say the India Office, do, as a matter of fact, make their accounts at the rate of 1s 4d, and the difference is treated as a revenue receipt. For the year 1910-1 there was a profit of 70,000*l* and for the next year it was 106,000*l*, so if this plan of mine had been adopted there would have been, as the result of those two years' operations, a reserve of nearly 200,000*l* in sovereigns if used now for exchange below 1s 4d. I may say that it is a practice which I have followed ever since the exchange was fixed at 1s 4d, and my own fund was sufficient to meet the drain in 1907-8-9—it was not exhausted when the rupee came back to 1s 4d.

4003 Having regard to the existence of the Gold Standard Reserve, would you not be rather duplicating the effort in the case of the Government of India?—Yes, but my object would be to have a fund which might be used in what might be called normal conditions. This special Gold Standard Reserve would come into play when there was a crisis.

4004 Perhaps it is hardly within the scope of our reference, but I think you are of opinion that the fixing of the rupee at 1s 4d has been beneficial to India?—I am.

4005 And in particular to Indian trade?—Yes.

4006 From what you have told me I gather that you yourself would desire to see a gold currency in India?—My attitude to that question is not so much that of an advocate of a gold currency on utilitarian grounds, but more for sentimental reasons, perhaps, and for considerations of prestige.

4007 Does that lead you to have any marked preference for the sovereign over a 10-rupee piece, say?—I have no hesitation in preferring the sovereign.

4008 Supposing that the object were, for any practical reasons, to get a large gold circulation, do you think that the sovereign would circulate more

freely than the 10 rupee piece?—I do not really think it would, for the reason, amongst others, that the payment of wages so often falls between 10 and 15 rupees—it is 10 rupees and over, but not over 15 rupees. For trade payments, the advantages of it are rather less.

4009 Do you attach any considerable value to gold in circulation as a support to exchange in times of difficulty?—I do.

4010 On what is that opinion based?—On the broad ground that if the gold is there it will come out if it is wanted.

4011 Does experience support that opinion?—I think upon the whole it does.

4012 Take the crisis of 1907-8, very little gold came out then, I think?—That is true, except what came out of the Government treasures.

4013 Roughly, I think my recollection of what we have had in evidence is that the Government treasures paid out something like 4½ millions, and of that only about a quarter million was exported. And the rest does not appear to have been of much benefit to exchange at that moment?—That would be so. At the same time, if there had been a mint then it is conceivable that gold would have been brought for coinage.

4014 Would you be in favour, then, of the establishment of a mint?—I do not favour a mint because I think it would be a profitable thing to have, but because it is a luxury I think the Government of India could afford.

4015 You are not advocating it very warmly, then?—No, I am not.

4016 Your reason for advocating the gold mint is the same as your reason for advocating the gold coinage, it is a matter of prestige and sentiment?—Precisely.

4017 As regards the Gold Standard Reserve, have you anything to say about the place where it ought to be kept?—I think in the case of the Gold Standard Reserve the bulk of it ought to be kept in London.

4018 Would you keep any portion of it in India?—I do not think I would go beyond the silver portion of the Gold Standard Reserve.

4019 Let me ask first as to the total. To what limit do you think the Gold Standard Reserve ought to be brought?—I would be inclined not to stop until the total amounts to 30 millions.

4020 Of that 30 millions how much would you advise should be kept in actual gold?—I think Government should work up to 10 millions in London.

4021 Would you keep any gold in India as well?—No, not for the Gold Standard Reserve.

4022 Having put by your 10 millions in actual gold, would you be prepared to invest the remaining 20 millions?—I would.

4023 In what class of securities?—Roughly, exactly the classes of securities in which the present balance is held—chiefly Consols.

4024 Not in short dated securities?—I do not think there would be any need to have it in short-dated bills then.

4025 Provided that you have got a large reserve in actual gold as your first line?—Yes.

4026 As regards the rupee portion of the gold reserve, that is as regards the silver in the gold reserve, what have you to say? Do you think it ought to be there?—I do not think there is occasion for very much criticism on it, because the object of it is to have a supply of rupees in the event of the ordinary stocks running down. It is merely a convenience.

4027 You would, I think, agree that the primary object of the Gold Standard Reserve is to support exchange?—Precisely.

4028 But the object of these rupees, as you put it to me, is to support the currency notes?—That is quite so.

4029 Does that not rather point to the conclusion that these rupees ought to be in the currency reserve, and not in the Gold Standard Reserve?—How it strikes me is that it is merely making a convenience of the Gold Standard Reserve.

4030 And you do not mind its being made a convenience of?—No.

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[Continued

4031 I think that is exactly the way that some critics would express their criticism—that the Gold Standard Reserve, which ought to be expressly kept to maintain exchange, was being made a convenience of for other purposes, but you do not see any objection to that?—I do not, and, as I say, my approval of the five millions of rupees in India is merely because the fund exists, and it may as well be used for that purpose.

4032 But your approval is conditioned by only a small proportion of the reserve being so held?—That is so.

4033 Have you anything to say on what was done on one occasion—and I think has never been repeated—namely, the diverting of a portion of the profits which ought to have gone to the Gold Standard Reserve to railway construction in India?—I think it was quite wrong.

4034 You would allow nothing to interfere with the accumulation of the Gold Standard Reserve until it has reached the limits that you have expressed?—Nothing.

4035 Do you think the Government of India should undertake now definitely to give a sovereign for every 15 rupees whenever demanded?—No I would not go so far as that. It might land them in consequences which one does not foresee just at this moment, but if they follow their existing practice of doing it, so long as it does not cause inconvenience, I think it will meet the case for some time to come.

4036 Would you think it an advantage if the conditions governing the Gold Standard Reserve could be more expressly determined and given statutory force?—That would, to a certain extent, be almost doing the same thing as undertaking to give a sovereign for 15 rupees, and I do not see that the Government of India would be quite justified in undertaking that unqualified responsibility.

4037 You do not think it would be quite safe for them to do it at the present time?—I should hesitate to do it.

4038 May I put my question in this way. Do you think that it is a thing which it would never be desirable for them to do, or do you merely think that they would be a little rash to do it under present conditions?—I do not know that I should put it quite as strongly as that, but I do feel that it would not be quite a safe thing to do under present conditions.

4039 Have you any observations to make as to the purchase of silver bullion for coinage?—I have suggested that instead of buying a large quantity at one time it would probably be cheaper in the end if it were announced at the beginning of each year that the Government intended to buy so much silver. As far as I can make out from the figures of the 10 years ending last year, the average annual demand was three millions sterling.

4040 Has there been a steady demand throughout the years, or has it varied very much from year to year?—It varies a good deal.

4041 If, therefore, the Government of India were to purchase regularly, they would in some years have a good deal more than they required?—Yes.

4042 And to that extent they would have locked up money uselessly for the time?—But they would probably be buying their silver cheaper than if they were cornered. Bombay would try to corner them.

4043 Do you think that in the long run what they lost in interest they would gain in the price of the silver?—I do think so.

4044 (Lord Faber) I understood you to say in the course of your evidence just now that you are in favour of the Indian Government lending out these balances in India, if possible, on approved script?—I did say so.

4045 Do you think you could get the kind of script that the Government would require, for any amount of money there?—I think you would get sufficient script to cover such advances as the banks would wish to get.

4046 That is the difficulty which some of us feel, whether these securities are to be had in India? If the money is to be lent, are the securities to be had against it?—Take the Bank of Bengal which holds Government paper that rarely falls below a crore and

a half, that means that they could easily raise one million sterling upon it, and a million sterling thrown into Calcutta would make a vast difference to the money market.

4047 I think probably they could manage a million. I was thinking of larger sums. I am perhaps being guided more by what happens in England. Would a million give you a good deal of relief in Calcutta?—A million sterling certainly would.

4048 I understood you to say that you would lend that at a fixed rate of 6 per cent if the bank rate was as high as 6 per cent?—I would.

4049 Would not an awkward position arise? Could you lend to certain specified borrowers at 6 per cent when other people might easily have to pay 8 per cent, would that not make a good deal of talk that certain buyers were being put at an advantage as against the rest of the community?—I do not think so. I do not see why the banks should be asked to work for nothing.

4050 What I have in my mind is, would it not be safer to lend the money at the market rate? A bank, when it gives what it calls the market rate, gives what it thinks it can make a profit on. Why fix the rate at 6 per cent? Why not take the market rate and if the bank will pay more, let it pay more?—Of course if you do, the banks will not make anything, and the banks must make money.

4051 The banks will always tender if they can get it at 6 per cent, because they would be able to lend it somewhere else at more than 6 per cent. A bank can take care of itself, as a rule, I think?—I think we are assuming that nobody else has money to lend except the Government of India.

4052 My point is, why should the Government of India lend even to a bank at 6 per cent when possibly the bank if the market rate were higher, would give a good deal more than 6 per cent?—I see no objection.

4053 Then you would fix the rate at 6 per cent?—No.

4054 I thought in your evidence you said you would make a fixed rate of 6 per cent?—Perhaps I am misunderstanding you.

4055 Suppose the Government want to lend out money in India and the bank rate is 8 per cent, do you propose to lend the banks that money at 6 per cent?—Yes. I should begin, whenever the bank rate went up to 7 per cent, by lending the money at 6.

4056 Why lend the bank money at 6 when the market rate is practically at 8?—Because the banks must make something out of it. They do not work for nothing.

4057 Is it safe, do you think, to lend Government balances for 12 months? Is that not rather long for the Government of India?—I should never recommend anything of the kind.

4058 This seems to me an interesting question, which perhaps you will be able to answer. Do you think India is hoarding gold in the true sense? For instance, is it secreting bars, do the natives of India buy gold bars, are they hoarding gold in that sense?—That I cannot tell you, it is not within my knowledge.

4059 Or are the Indian people now in a position to keep in hand a certain amount of what we call at home pocket money?—They have more money than one suspects.

4060 You know that in England there is a very great deal of what we call gold used as pocket money—a great many millions?—Yes.

4061 I thought that that state of things might have arisen in India, as India is so prosperous. I think I understood you to say that you are in favour of raising the loan in India if it can be done, rather than in England, if the rate is nearly equal?—That is so.

4062 You are of opinion that it would be better for India to hold its debt at home if it can?—I am.

4063 Do you think you could raise a big loan in India such as you sometimes I think, raise in the London market—four or five millions at a time? Could you do that in India, do you think, or would you



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exhaust the market?—I should not be prepared to say, but I think there may be ways of doing it.

4064 In 1907 and 1908, those two bad years in India, you say that little gold came in sight outside the treasures, in other words, little gold was brought out by that bad time, and it did not appear?—The Government treasures were emptied of gold.

4065 And they did not fill them up at all from the outside?—Apparently not.

4066 That was because there was little gold in circulation I suppose at that time?—That might have had something to do with it, it is conceivable that that might explain it in part.

4067 Since 1907-8 many millions have been imported into India?—The big import has been in the last three years.

4068 Now about the gold reserve, do you think 10 millions of what we have been told here to call metallic gold is enough?—I do, because in the crisis of 1907-8 it was only necessary for the Government of India to sell drafts on London for just over eight millions.

4069 If you have gold securities in the Gold Standard Reserve would it be possible, do you think, to sell those securities in a time of crisis and get gold for them? A gold security is a very good thing, but you would agree that it is not the same thing as gold?—No, it is not, but the assumption is that you have 10 millions of metallic gold to start with, and you are not obliged to begin selling on an extensive scale at once if you have got 10 millions to go upon before you begin to use the proceeds of your sales.

4070 Supposing that you have two bad years in India, two deficient monsoons together, then you might be in the position of having to sell your securities?—No. I think what would happen, even if you had two bad years in succession, would be that the imports into India would decrease tremendously, because the purchasing power would be so much reduced.

4071 (Sir Ernest Cable) In paragraph 9 of Appendix X.X (page 548) you refer to the possibility of the use of cheques being gradually increased throughout the country. Do you think, knowing the natives as you do, that that would be a very speedy process?—No, what I had in my mind more particularly was the European community using cheques more. The native does not, to any great extent, use cheques for large amounts.

4072 And it is not likely that he will?—I do not think so for a long time to come.

4073 He uses hundis, of course?—Yes.

4074 That is a very reliable form of document, is it not?—It is quite good.

4075 Are they discounted, or re-discounted, by the banks in Cawnpore? Are hundis dealt in?—It used to be the practice for the native merchant to advance money upon hundis to even European firms, and they went straightaway to the Bank of Bengal and discounted these hundis and pocketed the difference. They were able to borrow on better terms at the Bank of Bengal than the borrowers.

4076 The Bank of Bengal did discount them?—They did.

4077 A good deal has been said this morning about the capabilities of borrowing in India. It has been suggested that largely increased sums could be obtained at a slightly increased rate of interest, you agree with that, I understand?—I am afraid I do not quite follow.

4078 I think it was brought up by Lord Faber, and you said, I think, that large sums could be borrowed in India by the Government?—You mean by raising loans?

4079 Yes?—I am not in a position to say that large sums could be raised in India on Government loans. I only know that when the last loans were issued in India and London in England the whole loan was placed at 93 and in India they got over 96.

4080 But such borrowings as those would not bring out the hoards that you have been talking about?—I do not think so except you mean the hoards of the native states.

4081 Not the hoards in the pockets or the dhows of the people?—Not the hoards of the small man.

4082 No means have suggested themselves to you for making those large hoards available for the commerce of the country?—I think the co-operative credit banks are working in that direction, because those banks are mutual, and the members are largely the cultivators who have no doubt small hoards.

4083 You mentioned 30 millions as what I may call your high water mark for the Gold Standard Reserve; but you mentioned that figure without any particular method of calculation, I suppose—it is just your feeling about it, is it not?—I do not know that I could give a mathematical reason for fixing 30 millions, but to my mind it looks to be quite sufficient.

4084 I was only going to put it to you that we might make a calculation on some logical basis of this sort—say, two years' requirements of the Secretary of State?—Roughly, I had that in mind. What is called the annual demand by the India Office comes to about 18 millions or 19 millions. You have the analogous case of Russia. Russia keeps abroad in gold roughly 18 to 24 months of her requirements to pay for what she has to pay in gold in other countries. To a certain extent the economic position of India corresponds to that of Russia.

4085 I gather from your remarks about the various reserves, the Paper Currency Reserve and the Gold Standard Reserve, that you would have no objection to throwing those reserves together?—No, I should not.

4086 You think it would make for simplicity of management, perhaps?—I do not know that I would make a strong point of advocating it, but I see no objection to it.

4087 (Mr. Gladstone) Referring to the question of temporary loans in India, you have mentioned that the Bank of Bengal, for instance, hold about a crore and a half of Government rupee paper, but in addition to that they would probably hold, would they not, considerable amounts of Port stocks and of municipal bonds of the Presidency towns?—Quite so.

4088 And also of sterling Indian Government securities?—I do not know the details of their holdings.

4089 Therefore, probably the amount available would be very much larger?—Quite probably.

4090 It is probably within your knowledge that the Bank of Bengal would think nothing, for instance, of taking up the whole of the Rangoon Port Trust loan for 50 lakhs itself?—Quite so.

4091 If sterling Government of India securities were included that would also bring in, would it not, Government railway scrip, and there is no reason, if the Presidency banks hold India Sterling stock, why they should not also hold Indian Government Guaranteed Railway stock?—That is so.

4092 I think there has been a special enactment allowing the Presidency banks now to advance on scheduled Indian railways, whether they are on a rupee basis or not?—Yes.

4093 So that altogether the amount of securities available from the Presidency banks would be pretty considerable?—Certainly.

4094 I think Lord Faber referred to your suggestion of a fixed rate of 6 per cent., and as a sound economist rather suggested that it would not be very prudent for the Government to accept 6 per cent when perhaps they might obtain 7 or 8 per cent. from others. We have had it in evidence already that the exchange banks do not care about holding those securities which would enable them to accept these loans, and that practically there is nobody else except the Presidency banks holding any sufficient amount of security, therefore the question reduces itself to one of lending to the Presidency banks?—I am aware of that.

4095 If it is reduced to one of lending to the Presidency banks, there does not seem quite the same objection to having a fixed rate of 6 per cent., as that might be most effectual in checking a rise in the bank rate, and that would be for the general advantage of the country?—I understand that the exchange banks would not be particularly anxious to take the

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Government of India's money on these terms. They were quite content to leave it to the Presidency banks and get what they wanted from them.

4096 With regard to the placing of permanent loans—and you very aptly quoted 96 in India and 93 in London—it is the fact, is it not, that the investment by natives of India in high-class securities is extending very considerably?—That is not within my knowledge.

4097 You probably do know that a certain number of small railway schemes are now being financed in India?—Nominally, but I have heard it said that in actual fact they are financed in England and competing with borrowings by the Secretary of State.

4098 I am now talking of companies with rupee capital under the branch line terms?—I understand that.

4099 You would not be inclined to favour rather better terms being offered in India in order to encourage such investments locally, because you think that they are really taken up or backed in London?—If one could be quite certain that the money is being raised in India, I think it would be quite a good thing. The more you give the native of India an interest in his own country, the better.

4100 Could you tell me whether you are acquainted with the practical working of the small up country treasuries?—No, I am not.

4101 You could not say if the balances are carefully watched and moved about to the greatest advantage?—No.

4102 Would you favour, so far as possible, the substitution of Presidency bank branches for the small treasuries, where that could be arranged, in order to effect economies, as a bank presumably by doing commercial business would be able to work more economically than a Government working simply its own treasury?—I should doubt that. I am inclined to believe that the Presidency banks now go where they think it will pay them.

4103 But whether it will pay them or not in these rather distant up country places really depends upon the terms which they get from the Government, either as regards the minimum balance or the payment of certain charges?—Precisely. The balances in India that are held under the control of the Presidency banks away from the Presidency towns are liable to be taken up at any moment. They have no security on the balances they hold, and they cannot use them, because they may be taken up the next day.

4104 (Chairman) I would like to ask one question in that connection, suppose that the Presidency banks opened more branches and the Government were thereby enabled to close some of their treasuries and transfer their balances to the banks, would the banks be able to work with smaller balances than those now kept in the treasuries?—I would not like to give an opinion off-hand.

4105 (Mr Gladstone) Arising out of that question, perhaps I might suggest that they may be able to utilise these balances better than the Treasury?—If they have the same security which they have in Bombay, Calcutta, and Madras, that these balances will not be reduced below certain amounts.

4106 (Mr Keynes) Can you tell us in what class of transactions you find it possible in your business to use cheques?—Speaking of my own business, I use cheques in practically every case, no matter what the kind of payment, except for wages and salaries, which I always pay in cash.

4107 Are these cheques paid into someone else's banking account, or is it merely the way by which payees get money from your bank?—It so happens we pay largely by cheque, because we keep accounts both in Bombay and Calcutta as well as in Cawnpore and a good many of our payments have to be made in Bombay and Calcutta, and naturally we then issue a cheque upon Bombay or Calcutta to save bank exchange.

4108 If you are buying produce from an Indian trader would you pay him by cheque?—Very rarely. He probably wants either currency notes or actual cash.

4109 Then these cheques which you mention are paid to English merchants?—That is so, largely.

4110 And except when you are making payments to other English merchants you would not use cheques much?—No, broadly speaking I should not.

4111 If you were paying some one in Calcutta and you had not got a banking account in Calcutta but were drawing on a bank which had not an office there, would your customer in Calcutta be satisfied by that means of payment?—I should not do it in that way. I should buy a draft from a bank in Cawnpore that has an agency in Calcutta.

4112 You suggested that there ought to be a certain relaxation of the conditions now prescribed for the Presidency banks, I have not quite understood what relaxation it was that you wanted?—The only relaxation I asked for is that, instead of the regulation by which they are only allowed to advance on a document with two names on it, you should allow them to advance money upon any marketable security, because when they advance upon some such document as a promissory note with two names on it, which simply means that it is for the benefit of one of the parties only—not for the other—the bank takes some form of collateral security which is really what they are lending on, and not upon the names at all.

4113 The banks can at present lend on security which is deposited with them, or the title to which is deposited with them?—It depends on the nature of the security.

4114 What is the kind on which they are not now allowed to lend, and on which you wish them to be allowed to lend?—Such things as shares.

4115 But they can lend on some forms of shares now. You wish them to be allowed to lend against any form of marketable security which does not represent immovable property?—That is so.

4116 You would not include immovable property?—No, I would not include immovable property.

4117 The important part of the relaxation is that they should be allowed to lend against shares and debentures of companies?—That is so.

4118 The bank rate in India commonly reaches 7 or 8 per cent in the busy season, would you regard it as of great importance to the country that that high rate should be reduced?—I think it would be a very great convenience to trade if you could look forward to the rate not going beyond 7 per cent at the worst.

4119 Do you think it a serious burden on trade that the bank rate should go so high?—I think it is a drawback. It is a drain upon the trade of the country. It is a levy.

4120 In the United Provinces and the Punjab you are within the sphere of influence of the Bengal Presidency Bank, are you not?—Yes.

4121 But the seasons, the crops and the methods of doing business are very different from those in, say, Eastern Bengal?—I cannot speak of what happens in Eastern Bengal, except that it is generally understood that there it is chiefly silver that is wanted in payment of crops.

4122 Do you find that the Bengal Presidency Bank is able to adapt itself to the methods of Northern India?—I think the Bank of Bengal in particular—and I can speak of it from some personal knowledge—has laid herself out, of recent years, to adapt itself to meet the needs of the country much more than it used to do.

4123 You have found no inconvenience in the Presidency Bank of Bengal having to direct operations over such a very large area of the country embracing such different conditions?—That is more for the bank manager to say.

4124 You, as a trader, have not found any inconvenience?—I have not observed any difficulty.

4125 You say in your précis that the Presidency banks and the exchange banks are prosperous concerns that have been tried in adversity and emerged triumphantly, is there now in India another class of banks of which that is not true?—I think there is. I think there are a large number of commercial banks that are a danger.

4126 The Presidency banks act as bankers' banks to a large extent both for the exchange banks and also for these mushroom banks?—They do, just as the

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Bank of England acts as a bankers' bank here As regards the prosperity of the Presidency banks it must not be forgotten that, although they are paying now a dividend, and a handsome dividend, upon their original capital, they are not paying very much upon the actual capital employed, because, roughly speaking, the reserve in hand at each of the banks is equal to the capital, so you should divide the return you get upon your capital by two

4127 Do you feel perfectly certain that the Presidency banks are strong enough to relieve all probable difficulties in the next banking crisis, taking account of the fact that they will have to bear the burden not only of their own deposits, but also of the deposits of other banks in India?—I look forward to their doing that

4128 You think they are in a strong enough position to do that?—I think they are equal to it

4129 Would they be in a stronger position if their reserves were amalgamated, and if they were in direct connection with the Government?—Let me say this When I give that answer I am assuming that the Government of India are prepared to let the Presidency banks have the advantage I have spoken of I am not speaking of the Presidency banks now with their existing resources and entirely cut off from any recourse to the Government balances

4130 You are assuming that in a crisis the Government would come to the rescue to some extent?—I think to the extent to which they can advance the money upon proper security

4131 You do not think that a central bank which was an amalgamation of the Presidency banks, and which was in direct and habitual communication with the Government, would be in a stronger position to meet a general banking crisis in India than the three separate Presidency banks now are?—I do not know that it really would, because, after all, that bank would have no larger resources without the Government of India than the banks have now

4132 You do not think that the banking reserves of the country would be strengthened if all the available resources were in one reserve rather than if they were in scattered reserves?—Except that in the eventuality of the drain being upon both kinds of reserve at the same time, it would make a larger sum available in a liquid form

4133 The currency notes, I believe, are in the form of promissory notes of the Government of India?—Yes

4134 The management of the note issue might be taken over by a central bank without the Government of India repudiating the ultimate responsibility of the notes, and without their form being altered?—That might be done

4135 In that case would the confidence that they inspire be reduced?—There would not be the same reason for it if you keep the form of the note

4136 So that you would advocate the form of the note, at any rate, not being changed, even though the management of the note issue was changed?—I do not quite see how you could maintain the form, and still make it an issue of a State bank, but assuming you can do so I do not see that there is any objection to it on that score

4137 With regard to borrowing in India, would it be a good thing do you think to introduce some new form of security, such as railway securities with a guaranteed minimum interest and a share of the profits, would that be attractive to the Indian investing public?—I do not think it would make much difference

4138 Then you think there would be no advantage in that over rupee paper?—I do not think it would be an inducement

4139 With regard to the profits of the munt, in paragraph 18 of Appendix XX. (page 549) you say that the Indian munts, as now run, make a profit of over 100,000L, even when they are slack and coming no new rupees, from the purchases of silver?—Quite so

4140 Do you mean by that the profit on the coinage other than rupee coinage?—Other than rupees and half rupees—four annas, two annas, bronze and

nickel coinage, and also a certain proportion of trade dollars

4141 With regard to the purchase of silver let us suppose that your system of purchasing three millions a year or two millions a year had been in force over the last 10 years, after a long interval coinage began in 1901, and in that year two or three millions would not have been enough?—No, but when I speak of two or three millions I have reduced it to an average

4142 I am now applying that to an actual case In 1901 you would have to exceed your average?—Yes

4143 You would have to pay for that by going below the average of 1902, 1903, and 1904?—You would be obliged to

4144 In 1905 there was heavy coinage again, and, as you would have bought nothing in 1902, 1903, and 1904, in order to bring your average down, in 1905, 1906, and 1907 you would have had to buy very large sums?—You would have had some reserve to fall back upon to begin with You would have been accumulating the portion of your annual buying that you had not used, if you were to buy, say, a minimum of two millions, and when the price is favourable there is no harm in going to three millions

4145 If nearly all the coinage was in 1901, 1902, and 1903, or nearly all in 1901, you would find yourself in 1904 with a small reserve?—That is so

4146 There was a heavy coinage in 1905, 1906, and 1907, in which years you would have had to have bought very much more than your average?—I take it that you would, if you had been below your average

4147 On the actual facts as they were, you would have had to buy more than your average in those years?—Yes

4148 Then in 1908, 1909, and 1910, in order to bring it down again to your average, you would have had to have bought no silver?—During those years the Government of India were holding off coinage because they wanted to fight the Bombay corner, and they endeavoured to get as many people as possible to take sovereigns in payment of Council bills

4149 This is quite a new fact to us Is it one on which you have evidence, that the Government were deliberately refraining from coming?—I am taking it as a belief, I am not in a position to say it was a fact, but that was the public opinion

4150 That the Government were forcing sovereigns on the people?—I am assured it is the case that they tried to do so

4151 They had very large reserves of rupees in those years?—Then why did they want to coin?

4152 They did not want to coin?—The general belief is that they held off to the very last moment before they began to buy, and then they had to take steps to circumvent Bombay

4153 You are speaking now of 1912, not of the period 1908-12?—I am

4154 In the period 1908-12 they would have had to refrain from buying silver in order to bring down the average, which had been spoiled temporarily by the very large purchases in 1905, 1906, and 1907?—Yes If I am asked to say whether I should recommend spasmodic purchases of silver or steady purchases, I should plump for steady purchases

4155 I was trying to suggest that if you had the rule of steady purchases it would not have made the slightest difference?—In that event you would have been no worse off

4156 I am putting this point, that if you had applied your method to the last 10 years, it would not have worked?—I will take your word for it

4157 If you were to apply it to the next 10 years, you would base your average upon the demands in the last 10 years?—It looks to me very much as if my theory is correct, that the Government of India held off buying as long as they could, if the average annual demand is rather more than three millions because you came to a point when they were at starvation

4158 My own opinion is that an assertion that the Government were holding off was only true of a very few months, but I will not press you further on this question. The points I was trying to

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bring to your notice were first, that your plan would not have worked for the last 10 years, and, secondly, that for the next 10 years, 10 years being a long period in the currency habits of a country, it would be dangerous to buy, perhaps, years in advance on the basis of that rather remote experience?—Do I understand you to say that if the Government of India had begun 10 years ago buying silver at the rate of not less than two millions a year, the sum they would have had to pay for that silver would be at least as much as they had to pay when they bought eight millions straight off?

4159 I am saying that they could not have kept the programme of buying two millions a year, and that they would have had to have bought much more than two millions in some years, and therefore much less in others?—I take it that you have worked out the prices?

4160 I have worked out the figures of the annual demand for coinage?—And on the average monthly rates for silver during that period, it would have cost the Government of India as much as it did when they had to buy a large quantity?

4161 My argument is simply based on the assumption that you could not buy in the years 1908, 1909, and 1910 silver which you wanted to coin in the years 1905, 1906, and 1907?—That is so, but I have not suggested that you would not buy more than two millions a year if you wanted it, but I would buy two millions in a year I did not want it and make up the balance when it evened itself out.

4162 (Sir Shapurji Bhoacha) In former years, before 1911 the Secretary of State had smaller balances on this side, you said four millions?—Prior to 1909-10. As a matter of fact, the period of abnormal balances began with the year ending 31st March 1909.

4163 The four millions balance was not a large balance?—It is a very good sum.

4164 India has a debt of 500 millions to England, always?—500 millions of what?

4165 Pounds?—In what form? That is not the debt of India.

4166 Yes, that is the debt?—It is under 300 millions.

4167 No, 500 millions altogether, including the rupee paper and including the reserves?—It is 276,281,000.

4168 You do not count the rupee debt and the whole railway debt?—That is counting all the debts.

4169 Never mind, we will not dispute about that. The Secretary of State has to provide the materials for the Indian public works?—Yes.

4170 Taking all these things into consideration, it is a very small balance to keep here in order to be prepared for all contingencies. India had a surplus revenue during the last four years of about 20 millions, I think?—Yes.

4171 Of that surplus revenue, the opium revenue and the railway revenue together make up a sum of 13½ millions, and the further surplus was 6½ millions. Do you think with a progressive country like India a surplus of 6½ millions in four years is excessive?—It depends altogether on what you want to do with your surplus, or what ground you can give for getting it. If getting this surplus means that you have levied high taxation, it is wrong.

4172 I am taking a progressive country like India. Russia, for instance, had a surplus during the last two years of something like eight or nine millions?—What do you mean by a surplus under those conditions?

4173 I mean that you make your budget for a certain amount and what exceeds that amount is a surplus?—Yes, according to the budget.

4174 Do you consider, having regard to all the contingencies of India, that a million and a half a year is an excessive surplus?—I do not know. I would rather not give an opinion as to whether it is excessive or otherwise.

4175 There have been complaints made about excessive surpluses and about taxation that ought to have been reduced at once?—There is no doubt that the income has been estimated with very great caution.

4176 Should not India's income be progressive because the country is advancing by leaps and bounds?—I think there is no doubt that the question of the amount levied by taxation would have been taken into consideration if it had not been that the time is coming when even more will be wanted. It is like getting the toad accustomed to the harrow.

4177 As I said, there was 13½ millions of windfalls from opium and railway excess, could they have used that surplus in India?—I think they made a very good use of it as they did, by paying off the debt.

4178 They were right to use it as they did?—I should think so.

4179 Do you know what the practice of other States is in keeping large funds in foreign countries?—I have mentioned what one might call the classic instance of Russia.

4180 Are we not to be bound by the example of other countries in estimating the Secretary of State's balances?—I am not sure that we are not bound by the Secretary of State's practice.

4181 In judging the Secretary of State, are we not to have those examples before us?—No. I would prefer to hold the Secretary of State's practice up as an example to them.

4182 We will not discuss that. Do you think the Secretary of State was right in using that surplus balance as he did?—I think he was quite right seeing he had it.

4183 And the surplus balance would be no good in India?—As a matter of fact there was a surplus balance in India, too, but it did not do much good.

4184 India having a surplus, that surplus was no good in India?—None whatever.

4185 If they do not use it at once, I think they must wait until it is allocated to certain uses and certain ways and means?—That is what I understand is the only way of dealing with it.

4186 Do you think money ought to be lent to the Presidency banks when money becomes dear?—I do.

4187 And you fix the rate at 6 per cent?—I think 6 per cent is a fair thing to start with.

4188 When the bank rate is raised to 6 per cent, do you not think the Government should commence lending money at 1 per cent less, so as to give the Presidency bank some profit?—No, I do not think so.

4189 If the money is lying idle, what would you say of the Government?—There is a lot of money lying idle now. Income from your funds is not always the first consideration.

4190 Suppose the Government could spare seven or eight crores to trade, and lent that to the Presidency banks when the rate is 6 per cent, would there be any harm in their doing so?—It would be an innovation and I would be disposed to wait until the rate went beyond 6 per cent before I gave them anything.

4191 Is there any harm in lending six or seven crores?—I see no harm in it, but I think the occasion would not have arisen then.

4192 You have been in India for 29 years. I think you told us?—Yes, I said so.

4193 The money market in India has very much widened during the last 29 years, has it not?—It has become a different thing altogether.

4194 And you cannot base your lending on what you experienced in 1874?—I daresay not.

4195 Money is dear from December to March?—Yes, it begins to get dear in November, usually.

4196 Is that owing to money going for revenue into the pockets of the Government of India, to a certain extent?—No. It is due, in the first place, to the need of money to pay for the jute crop of Bengal which is followed immediately by the demand for money to finance the rice crop in Burma. A great part of that does not come back to India.

4197 That is the trade demand, but independent of the trade demand the money goes for revenue payments to the Government of India?—Naturally, once the crops are harvested, the revenue payments begin.

4198 In every country the Government money is given for use by commerce?—I do not want to be tied down to that.

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[Continued]

4199 I say that is the fact in every country?—To a limited extent, perhaps, but it wants qualification

4200 In every country they make loans in order to finance the trade of the country, and they do not put the money in the Government vaults. In England, for instance, there are 18 millions at the Bank of England now?—How much of it is borrowed?

4201 (*Chairman*) Does not that 18 millions include funds in the Court of Chancery, and all other subsidiary funds?

4202 (*Sr. Shapurji Broacha*) It includes all the Government funds. If money for three months becomes dearer, it is due to the Government of India keeping that money in their hoards and not putting it out into use?—I would not hang them for that.

4203 And I would not hang them for it, I do not think they have bodies to be hanged. Do you think that the Government of India should lend from their surplus balances?—I do.

4204 And even if those surplus balances at that time happen to be at home, would you get them back?—No, I say subject to the convenience of the time.

4205 I think it is your experience now that money is much cheaper and more easily obtainable than it was 20 years ago, or 10 years ago?—It is cheaper than it used to be in India.

4206 Do you know how much money is raised in India for loans now every year? Is it not about three crores for the Government and about three or four crores for the municipalities, the Port Trusts and the Improvement Trusts?—Yes, that is the annual amount raised.

4207 Do you know that the 3½ per cent sterling loan is 9 per cent cheaper than the rupee loan—that it is under 87 now, whilst last year the rupee loan went at 96?—Or rather over.

4208 And it is expected to go to 96 this year?—That I will not say, I cannot tell.

4209 Do you know that there is a large amount of money coming out in the native states and in Upper India for local railway loans?—Yes, I believe Bombay has obtained a very large sum from the states.

4210 Do you know that a good deal of railway work is stopped by the dilatoriness of the Government of India, or of the Secretary of State, in giving those concessions?—I do not know that I should make that statement. I have no doubt whatever that the Government of India considered the matter very carefully, and to charge them with dilatoriness under the circumstances I think is not quite correct.

4211 So you are agreed in this, that the Government could lend safely six or seven crores to the Presidency banks during the busy season?—I would let them fix the amount, I would not fix it in advance beforehand.

4212 There is no danger of that if the funds are available. You would not commit yourself to the amount?—No.

4213 You are not in favour of a State bank?—No. I am not antagonistic to it, but I am not an advocate of it.

4214 Do you think it would be too large a concern?—I do not think it is needed, and I see obstacles.

4215 Do you see any difficulty in stating where it should be—Bombay, Calcutta, or Madras?—Yes.

4216 Do you think the Presidency banks are doing the work equally well?—I think the Presidency banks are doing very well indeed, and are very accommodating.

4217 There has been a fear expressed that if you lent in India six or seven crores on Government paper at a time of trade demand, the money would not be returned when wanted, apparently you do not believe that?—I do not think there would be any difficulty, I would not anticipate any difficulty.

4218 Even now money is very cheap in India?—Very cheap—2 per cent.

4219 Although the rate of the Bank of Bombay is 5 per cent, and the rate of the Bank of Bengal is 4 per cent, do you know that in Bombay money can be had at 3 per cent?—Yes. You are very fortunate in Bombay.

4220 And do you know that there are no borrowers at present at 2 per cent?—I could find a borrower.

4221 The money would certainly return in the monsoon after the busy season?—Yes.

4222 There is no fear of that money not returning when it is wanted?—I should think not.

4223 Do you know whether the exchange banks can borrow on rupee securities in England?—I have no doubt London takes care of itself.

4224 If they could borrow in India or England on securities, I think the Presidency banks would be equally safe and equally careful to see that they are not tied up when the money has to be returned?—Provided security is given, I would not mind.

4225 Why do you want more frequent sales of Council bills, they can always buy them everyday at  $\frac{1}{8}$  higher than the rate fixed on the preceding Wednesday?—That I was not aware of. They might not want to give the  $\frac{1}{32}$ , they might be expecting it to be  $\frac{1}{16}$  lower.

4226 You said you wanted to educate your people by giving them sovereigns?—I wanted to accustom them to the use of gold.

4227 Did they not use it before?—No.

4228 You know that before 1900 when the standard was established they used to have three or four millions imported every year?—That was used for ornaments, they were shield sovereigns, and were used for necklaces and things of that kind.

4229 How do you know they do not use sovereigns for ornaments now?—I take it they do. They are all used up.

4230 Do you think it is any benefit to force gold on people when 15 rupees can buy the same quantity of food?—Yes, because, after all, if you have a gold exchange standard the natural step afterwards is to have a gold currency, if you can do so economically. The only alternative would be notes.

4231 A gold currency means that you would have to give gold when demanded?—It does not mean a gold standard.

4232 Let us understand the distinction. A gold currency means that you must give gold when demanded?—To make it effective that is the only way to do it.

4233 A gold currency means you have to give gold, or it is not a gold currency?—That is so.

4234 Suppose they had tried a gold currency, in 1908 when they stopped giving gold the gold currency would have been a failure?—That is so.

4235 Is it prudent to risk that failure in another year?—I have not asked them to do so, I have not recommended it.

4236 A good deal of silver bullion has been purchased, and some say Government has made the silver currency redundant, do you think they did?—I do not quite follow you.

4237 It is said that the coming of an excessive number of rupees in the past few years has made a great redundancy of currency, and prices have gone up, do you believe that?—I do not know that that is the reason why prices have gone up.

4238 Do you say that is not the reason?—I do not say that, I say I am not clear about it.

4239 Has a redundancy of rupees raised prices?—I do not know that there has been a redundancy of rupees.

4240 There is no redundancy of silver now, is there?—I do not know, I have not heard that there is.

4241 If they had not bought that seven millions of silver last year there would have been no rupees left, because the rupees went down to about 11 crores?—I understand that there was great need for rupees when they began coming last year.

4242 Your idea is that they should buy silver every year, is it?—I think they should average their purchases.

4243 But they have to buy more silver in the years when they want more rupees?—That is so.

4244 Would you like to refuse to give a man 15 rupees if he presents you a sovereign, and say No, we will pay you only in sovereigns, not in rupees?

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[Continued

—What they say now is If you bring me a sovereign I will give you 15 rupees

4245 When they pushed sovereigns in Cawnpore in the beginning of 1901, and also in Delhi and other places, the sovereign went to a discount, did it not?—I have known sovereigns at a discount of four annas

4246 (Chairman) When have you known that happen?—About the earlier years, 1899 or thereabouts. Then, when the people did not know the sovereign, they were very chary of accepting it, and if a man were paid a sovereign in his wages and he went into the bazaar he only got 14 rupees 12 annas for it

4247 Has that ceased entirely now?—That does not happen now

4248 (Sir James Blythe) With regard to your remarks on the Presidency banks and the conditions under which they work you say that you are not in favour of any material change in the conditions now prescribed for the Presidency banks?—Except in the one particular that I have quoted

4249 Are you aware of any other banks without a note issue that work under similar restrictions?—No

4250 When you say the banks, if given access to the London markets, will merely be competing with the exchange banks, do you mean that the object would be to do exchange business?—I assume they would do exchange business, and also take deposits

4251 If the Presidency banks had authority to borrow in London against the securities they hold might it not be an advantage to India if that prevented the bank rate rising to a high level?—Yes, if it were to operate before the 6 per cent rate was exceeded, under the terms of the advances from the Government balances, assuming that that is conceded

4252 Do you know whether the Presidency banks require to remit money to England on behalf of their constituents?—Yes, they have to do that

4253 Constantly?—Yes, that is quite a usual thing

4254 Are you aware whether all the exchange banks are equally willing to supply the Presidency banks with drafts on London?—That I cannot tell you

4255 Do you know whether the rates of exchange at which the exchange banks sell drafts on London to the Presidency banks are always the best rates of exchange?—I think they are usually as good as you can get from the exchange bank direct. That is my own experience. As a matter of fact I always set the one against the other, and as often as not I deal with the Presidency banks

4256 I am talking about bills bought by the Presidency banks, you do not know about that of your own knowledge?—I do not know of bills, I am speaking of buying drafts on London

4257 I am talking of drafts bought by the Presidency banks from the exchange banks. You do not know, do you, whether they always get the best rate of exchange?—If you buy a draft of the Presidency banks on London they would do it through one of the exchange banks

4258 You do not know what rate of exchange is given?—No. I give the market rate

4259 Do you prefer the Presidency banks?—If the Presidency banks give me as good a quotation for my draft as the exchange banks I would probably give the preference to the Presidency banks

4260 Do you find that the Presidency Banks sell drafts on London?—They do

4261 On their own account?—On their own account through their agent in London

4262 Are you aware that the exchange banks compete with local business in India?—Yes, they do

4263 There is no restriction in the number of exchange banks, and they may engage in any business in India?—There is no restriction that I know of

4264 A new bank can be started any day?—Yes

4265 I am afraid I did not quite understand what you meant when you said you would fix the rate at 6 per cent for loans from the Government from the Gold Standard Reserve, why do you fix the rate at 6 per cent?—Because I think it is fair

4266 Would it not be fairer still if you made it lower?—I would not object to its being lower, it would suit me well enough. As I say, it is something in the nature of an innovation and I would not begin too low. It might be found that you could go a little lower afterwards, but it is an experiment and I should prefer to start at six

4267 Do you think that the trade of the country is usually financed without difficulty under existing conditions? Do the periodical high rates of interest not indicate some degree of difficulty?—I do not think so. I do not think myself that there is a great difficulty in financing the trade of the country at any time

4268 Regarding the note issue of a State bank, do you not think that a bank, if given an interest in the profits of an extended note issue, would be in a better position to push the circulation than a Government department?—I am not sure that it would. What would you mean by pushing circulation?

4269 Increasing it?—By compelling a man to take notes if he wanted gold, or what?

4270 A bank can usually give some inducement, can it not?—What would it offer?

4271 If you make it worth while, it might offer a reduced rate of discount?—Would you give notes at a discount?

4272 No, I would give notes in payment of bills discounted?—If a man wanted rupees of gold, you would hardly force the notes on him

4273 I am talking about giving an inducement, a bank could induce notes to go into circulation when it discounted a man's bills, could it not?—There is no doubt that the bank is in a position to promote the circulation of notes, under the circumstances, better than a Government treasury is

4274 There is another point I was not very clear about. You said that the absorption of the three Presidency banks by a State bank would result in the sacrifice in a large measure of the advantages to trade which the present system secures. Why should there be any sacrifice at all?—Because the knowledge that a Bombay bank manager has acquired now would not be of very special use to him if he were transferred to Calcutta, say, or Madras. He has discovered the best way of handling his Bombay customer, which is probably a very different thing from the way he would handle a Bengalee

4275 Would he not naturally be retained in Bombay for that purpose, where he was most useful?—Very likely, but there you have got the experience of your board as well—your specialised board who know all about the conditions

4276 On the subject of Council bills, you do not see that it would be an advantage to transfer the business of exchange to a State bank?—No, I do not

4277 Must you assume that the State bank would do exchange business necessarily?—Not necessarily, but that, I understand, is one of the objects of the proposal—that they should handle exchange, and manage it

4278 As a matter of fact, we have not had any proposal before us yet. In the way of exchange how would the State bank do exchange business? Would it be confined only to the business of Government in remitting the home charges?—I think it would be better to ask a banker that

4279 With regard to the home market in India, you agreed with Sir Shapurji, I think, that the market is now much more open than formerly?—I am quite satisfied it is

4280 In your experience do the mercantile community as a whole require to borrow freely in the busy season?—Yes

4281 And in the off season the loans are paid off?—That is what the off season means

4282 Could that money not be made available for Government loans? Why is it that that money is not put into Government loans now?—Which money do you refer to?

4283 I mean the money belonging to the mercantile community which they hold in the slack season?—I do not know whether that kind of people would

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[Continued]

be disposed to lock up their money in Government loans I take it that as a matter of fact the banks, for example, will buy Government paper during the slack season and sell it again when they want to realise in order to use their funds in a better way.

4284 Is it not your experience that the people are afraid of high rates of interest in the busy season causing a depreciation in the value of Government securities?—I think they are afraid of that, there is no doubt about it.

4285 Then if we can bring about a condition of affairs where we should do without these high rates of interest in the busy season that would be an advantage not only to trade but to the Government in the way of loans?—Yes, whatever is an advantage for trade is necessarily an advantage to the Government.

4286 (Mr Gillan) Would you object to the head quarters of the central bank being located at Cawnpore?—No.

4287 Perhaps on grounds somewhat similar to those which induced the Government of India to take its capital and administration to Delhi?—I am not sure that I know the whole grounds on which they made that move, but for geographical reasons I should say that Cawnpore is plainly indicated.

4288 There is one point in the local currency of Cawnpore which I wish to ask you about. Mr Toomey and Mr Fraser of the exchange banks gave us some figures (see Appendix XVIII, pp 541-2) showing the proportion of gold, of notes, and of silver, which circulate at various centres, those showed, I think, that the proportion of notes in the Cawnpore circle is very small even compared with a place like Lahore. Can you suggest any reason for that?—What is it that takes the place of notes in Cawnpore—gold, or silver?

4289 It is difficult to say, gold, chiefly, I suppose?—That seems to me to indicate that gold is becoming more the medium of exchange, as notes used to be.

4290 But why should that be the case in Cawnpore especially?—That I cannot tell you.

4291 In reply to Mr Keynes, you said that the Government of India had put off coming rupees as long as possible?—I said it was believed they had.

4292 I understood you to say that in order to do so they had forced the sovereign into circulation?—I have been told so.

4293 Do you know what was alleged regarding the forcing of sovereigns into circulation? When did it happen?—The name of the firm was given to me, as a matter of fact, but I would rather not mention it, because they will probably be represented here later. A very large firm was said to have agreed to take sovereigns in payment, because they could utilise them just as well as rupees. It is a firm that is in the habit of buying Council bills and telegraphic transfers.

4294 There are just one or two points in your memorandum that I wish to ask you about, as they are not quite clear to me. You say in paragraph 11 of Appendix XX, p 543, "It seems scarcely correct to explain that any capital expenditure has been met out of surplus revenue"?—That is so.

4295 What did you mean by that?—When a man says that he has applied certain surpluses to capital expenditure, it is the same as though a man, who is making out a profit and loss account, were to say that he has debited capital expenditure to revenue when as a matter of fact that is not what takes place. When the India Office go through this operation, it is not quite so

simple as it looks. My understanding is that it is quite true that they pay this actual money for capital expenditure, but coincidentally they write off an equivalent amount of permanent unproductive debt and add the amount to what they call the reproductive debt, so that really the railway construction account is debited with its proper amount instead of its being paid out of revenue. It gives an impression that they are paying something out of revenue.

4296 Suppose you financed your railway programme partly by diminishing your balances, is that not coming out of revenue?—No, because if you do, you are adding to your reproductive debt.

4297 That may be the effect, but it is coming out of revenue, surely?—That is merely a question of words. In effect what happens is not that they pay anything out of revenue, they debit their railway construction account with the proper sum for capital, and do not reduce it by the amount paid out of revenue.

4298 Then you say in paragraph 24 of Appendix XX (p 549) "I do not approve the action taken " in 1907, when over 1,000,000l was taken from the " reserve for railway development, I would even ask " that the sum be replaced " How would you do that?—If you tell me what account was debited and what credited, then I will tell you.

4299 Would you reduce the railway programme in order to do that?—No.

4300 Where could it come from?—If need be, you could have taken that 1,000,000l back into the reserve by raising a loan and putting it into the reserve.

4301 Do you think our position, considering what we hold now in the Gold Standard Reserve and in the Paper Currency Reserve, is so risky as to make this step necessary?—I say that it is not a question of necessity but a question of equity. That sum belongs to the Gold Standard Reserve, and I do not even now know whether that was debited with the reduced capital expenditure of the railways, or whether some equivalent sum was paid off a floating debt, because in the India Office accounts all payments for railways, whether it is on revenue account or construction account are, as far as the India Office is concerned, debited to capital.

4302 That is in the *pro forma* account?—In the Home Accounts you will find no entry whatever for railway stores, such as you will find for civil stores and military stores. It is all debited, as far as the India Office is concerned, to capital, and any allocation that takes place is done on the other side.

4303 Then you propose this, not because you think it is absolutely necessary, but on the broad ground that what was taken away from this fund ought to be given back to it?—That is all.

4304 (Chairman.) I think you said something, in answer to one member of the Commission, intimating that in your opinion some danger was arising in India now through the multiplication of banks with small resources, did I rightly understand you?—Yes, that is quite notorious. There are a large number of so called banks that are only pawnshops.

4305 Has there been any movement in commercial circles in India with which you are acquainted, to ask for any action by the Government?—A movement has been made.

4306 What was the object of the movement? Did they ask for inquiry or for legislation?—They asked that some sort of restriction should be made upon the right of any organisation calling itself a bank.

The witness withdrew.

Mr BHUPENDRA NATH MITRA, C.I.E, called and examined.

4307 (Chairman.) Will you please tell the Commission what your official experience in India has been?—I am at present holding the post of assistant secretary and budget officer in the Finance Department of the Government of India. I have been holding this post since 1910. From 1909 I have been employed as the officer of the Finance Department in

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charge of the Budget, and I have still got to do this budget work in the post of assistant secretary, and am employed in that work for about three months, for the rest of the year I have got to do the other work which devolves on the assistant secretary proper. Previous to 1909 I was employed in the Finance Department for about three years as

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MR. BHUPENDRA NATH MITRA, C.I.E.

[Continued]

superintendent of the Budget Branch. Before that I was superintendent of the Budget and Resource Branch of the Comptroller General's Office. I entered the Government service in the latter office in 1896, and the first four years of my service were passed in learning the work of the different branches of the office. In 1901 I was made superintendent of the Budget and Resource Branch of the office. I filled that post for about five years, of which about six months were passed on special duty, on work not connected with the Budget and Resource operations. Since 1906 I have been employed in the Finance Department as superintendent of the Budget Branch, then on special duty to work out the new budget procedure in connection with the enlarged councils, and lastly, as assistant secretary and budget officer.

4308. We have been told that the Government of India aim at having a normal balance of about 12½ millions on the 31st March, is that correct?—Yes.

4309. Can you explain what the need for a balance of that amount is?—The balance of 12½ millions sterling does not really represent the minimum balance with which it is possible to work the Indian treasuries. What happens in India is this. There is a period of low balances, and that usually happens about the beginning of December. After that we collect a large amount of land revenue, and the railway receipts and customs receipts are also very heavy towards the latter portion of the year. December is the period of low balances, and 12½ millions represents the balance which, in normal circumstances, the Government of India must have on the 31st March, so as to have a balance of 8 millions on the 1st December. Of that 8 millions, roughly about 4½ millions represent the minimum working balance which is required in the district treasuries, and about 1 million is the minimum balance required in the Presidency banks. It would be very inconvenient to work below the sum of 5½ millions.

4310. Do you mean 5½ or 4½?—5½. I think there are some papers of 1888, and 1898 also, in which Sir James Westland said it would be impossible for the Government of India to reduce the working balances in the district treasuries and Presidency banks below this sum of 5½ millions. The difference between the total minimum of 8 millions which I have just mentioned and this 5½ millions amounts to 2½ millions, and that 2½ millions represents partly a margin against possible risks and partly a reserve to meet famine and other unforeseen contingencies.

4311. When you speak of a reserve for those purposes, do you mean that it is a security against a failure of the revenue, or that it is provided in case expenditure should be raised?—The effect of famine arises in both directions. You may either have a partial failure of revenue, or you may have to meet direct famine expenditure, or you may have to issue large sums as advances to the cultivators. So that it is really a margin against a failure in revenue and also against increased expenditure. The ordinary margin against possible risks, which I have referred to, used to be taken roughly at 20 per cent of the 5½ millions—that is, about one million. In 1901-4 there was some correspondence between the Government in India and the Secretary of State regarding the formation of a famine insurance fund. Lord Curzon's Government wanted to create such a fund by investing in non-famine years the half million which is appropriated every year from the revenues for the avoidance of debt, but the Secretary of State thought that it would not be quite proper to find the money in that way, and that the proper course would be for the Government of India to increase their treasury balances. As a result of this correspondence the minimum balance was increased from 10 crores to 12 crores. Of the latter amount 5½ millions sterling represent the money which is necessary to work the district treasuries and to meet Government payments at the Presidency banks. These 5½ millions include about one million which is at that stage kept in the Presidency banks, and the distribution of the 5½ millions is therefore 4½ millions in the district treasuries and one million in the Presidency banks.

4312. You speak of a million being required at that date—that is, in the early part of December?—That is so.

4313. That is required to work the Presidency banks?—Yes.

4314. Will you explain what you mean by that?—These Presidency banks carry on the ordinary treasury business at the headquarters of Government in the three Presidency towns of Calcutta, Madras, and Bombay. Government has to meet certain payments at these three places, and the money must be there so as to be available to meet these payments. The remaining 4½ millions is distributed among district treasuries, and that being so, I think it will be admitted that it is not a very large sum.

4315. When were these balances last reviewed by the Indian Government?—The minimum balances are practically reviewed every year. The procedure is that every year the Accountant General of each Province examines the estimates of the minimum balances of the district treasuries, and makes any reductions or other alterations that he thinks possible. Then he sends up his estimates to the Comptroller General, and if the latter thinks that the Accountant General has allowed too large a margin he asks the Accountant General to re-examine the figures and to make any possible reductions. I can show the Commission the last review of the Comptroller-General. As a matter of fact, these minimum balances have been rising in recent years.

4316. Why have they been rising?—It is firstly due to the increase in the number of district treasuries. A second cause is the increase in the volume and magnitude of the transactions. A third is that we are guaranteeing a minimum balance at all the new branches of the Presidency banks where the Government is transferring its treasury business to them. Those are the three main causes.

4317. I gather from what you say that the Government of India have been encouraging the Presidency banks to take over the management of the balances wherever they can?—Yes, that is so.

4318. And to open new branches for the purpose?—Yes.

4319. Does the inducement which the Government of India offer for that purpose always consist of their undertaking to maintain a minimum balance with them?—It is the practice nowadays to do so. In the case of the old branches there is no such obligation, but in recent years, when the Government of India has asked a Presidency bank to open a new branch at a place where the bank thought it would be unremunerative to do so with reference only to the local banking business, it has guaranteed a minimum Government balance. I think, roughly, there are about a dozen places where the Bank of Bengal and the Bank of Bombay have either opened new branches or have taken over the management of the Government balances on these conditions.

4320. In such cases has the net result been that the Government has had to maintain a smaller balance or a bigger one?—I should say, from the Comptroller-General's reports on minimum balances, that it has got to maintain a higher balance.

4321. Where they close a treasury and induce a bank to undertake the work, they are obliged to give the bank a guarantee that they will keep a higher minimum balance than they found it necessary to do while their treasury was open?—That is so because the Government Treasury business is conducted mostly on these lines. We do not keep the whole of the cash balance at any particular place in the local treasury itself, but we have an attached currency chest and any surplus treasury balance is transferred to the currency chest, and then forms part of the paper currency reserve. Then when money is required at that particular treasury later on, we transfer the money from the currency chest into the treasury and make an opposite payment at the headquarters of the province or at some other place. In that way if Government transacts the Treasury business by itself at a particular place, it can often manage with a smaller balance than the minimum sums which have been guaranteed to the Presidency banks.



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Mr BHUPENDRA NATH MITRA, C I E

[Continued.]

4322 If that is so, what is the inducement to the Government of India to close its treasuries?—Mainly because it is part of a policy to place larger amounts out of the Government balances at the disposal of trade in India.

4323 So that in your view the change has been costly to the Indian Government, but is worth doing in the interests of Indian trade?—I think so. Of course I could not definitely say that it has been costly, because against these increasing balances has to be set off the saving which the Government has made in its establishment charges, because as soon as the Government transfers the Treasury business at a particular place to the Presidency bank it can dispense with some portion of the old Treasury establishment, and it has not got to pay to the Presidency bank any sum to cover the establishment charges which the bank will have to incur. At the same time the effect of the arrangement, according to the Comptroller General's reports, has in several cases been to raise the balances.

4324 Will you give me an example?—An increase of five lakhs in Bombay is attributed to the guarantee of minimum balances at the branches of the Bank of Bombay opened at Sholapur and Jalgaon.

4325 Is the increase in that particular case an increase of the Government balance at the headquarters of the bank?—No, at the branch banks. It is an increase in the minimum balance at the district treasuries. These minimum balances have gone up from something less than four millions to about 4½ millions in the last five or six years.

4326 In recent years I suppose the facilities of communication in India have very much increased?—Yes.

4327 Does it not strike you as, at first sight, rather surprising that, whilst the facilities of communication are increasing, the size of the balances should also be increasing? Would you not *prima facie* have supposed that with the increases in the facilities of communication it would have been possible to reduce the balances?—Of course, it is partly owing to the increase in communications that the balances have not increased to quite the same extent as it would have been otherwise necessary to increase them. The transactions of the Government have increased very largely. The number of treasuries has also gone on increasing and we have gradually acquired more territory—Burma and Berar, for instance. In spite of all that, the improvement in communications has enabled the Government of India not to increase its minimum balances beyond the figure which was practically fixed some time in the 80's.

4328 So that, though there is some increase in the total of the balances, they are smaller in proportion to the volume of business than they were several years ago?—Quite so.

4329 Just now you spoke, in cases where there were these treasuries, of the money being used or transferred to the currency reserve, what exactly is done with it when it gets there—what is the effect of the transfer?—The effect of that transfer is that we can reduce the balance of the district treasury and we can transfer the surplus balance to the headquarters, either of the Accountant General or of the Comptroller General.

4330 You put it into the currency reserve, and then you can transfer it to the headquarters of either of those officers—as that it?—What happens exactly is this. We open a currency chest, say, at Agra, and we put the surplus treasury balance there into the currency chest, but the total of the currency reserve is of course unaffected by this transfer, because we make a *per contra* transfer of an equal amount at, say, either Cawnpore, which is the headquarters of that particular currency circle, or at Calcutta, where the headquarters of the Comptroller-General used to be until a very recent date, and where the main currency office still is. In the latter case, the treasury balances at Calcutta are increased and the treasury balances at Agra are reduced, on the other hand, the balance in the currency chest at Agra is increased while the currency balance at Calcutta is reduced.

4331 When you want the money back into the Treasury at Agra, can you without difficulty reverse the transaction?—Yes, that is exactly what we do.

4332 The net result being that you, by the use of the currency reserve, free money where it is wanted from the reserve, and replace money in the reserve at the place where you have a surplus?—That is exactly so, in fact, the Government of India has saved the cost and trouble of actually moving this surplus money from one station where it is not wanted to another station where there is need for it.

4333 In spite of these facilities, which must be very considerable, the Government of India does not think that it can safely reduce the Treasury balance below the figure at which it now stands?—That is exactly the position. In fact, these facilities existed in 1888, and even long before. Sir James Westland, in a paper which I believe has been handed in by the India Office,\* said it was possible for the Government of India to work these district treasuries with the small sum of 4½ millions, owing to the existence of this device of putting surplus money into the currency chest and transferring it through that channel to the headquarter treasuries.

4334 I gather, therefore, that the mere multiplication of branches of the Presidency banks would not enable you to work with any smaller balance?—Not a multiplication on the present lines, that is, if Government has got to guarantee a minimum balance when it transfers the Treasury business to newly opened branches of the Presidency banks, I am afraid it will not be possible to reduce the minimum balances.

4335 When a guarantee of that kind is given, it is given for a fixed period?—Yes, it is usually given for a fixed period in the first instance.

4336 It would then be renewed at intervals, would it?—That is so.

4337 What is the explanation of the fact—I think it is a fact—that the balance in India on the 31st March this year was over 19 millions?—The main reason was that the Secretary of State was unable to withdraw the surplus accumulation to England by selling Council bills at what he considered to be a reasonable rate. Of course, it was helped by the fact that the Secretary of State paid for the large silver purchases which were made in England in 1912-3 out of his Home Treasury balances and not from the money which he had in his currency chest.

4338 The size of the balance was partly due to the use of the English balances for the purchase of silver, and partly to the Secretary of State's selling fewer Council bills?—That is so.

4339 How far does the Government of India control the amount of Council bills sold?—The procedure is something like this. The Government about the 9th of every month knows what its cash balances on the last day of the previous month were, then it calculates what portion of the balances is really wanted to meet the current requirements of India. The surplus so arrived at it places absolutely at the disposal of the Secretary of State, and the Secretary of State is quite free to draw the whole or any portion of it he likes to England by means of Council bills.

4340 So that the Government of India indicates to the Secretary of State a maximum, but the Secretary of State acts entirely on his own initiative as to what amount he sells within the maximum?—That is exactly so.

4341 Would it be possible for the Government of India to make loans from the Government balances to the Presidency banks?—That is a big question. It has been held in the past that such loans are not in the interest either of the Government or of trade. It results on one hand in an undue dependence of trade on Government money, and it may also result in Government locking up money, in the shape of loans to the Presidency banks, for which there may be a sudden and unforeseen demand. It has also been held that if Government lends money to the Presidency banks, the result will be that for the time being the demand for Council bills for trade remittances to India

\* See Appendix II, pp. 43-7 and p. 53.

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will fall off, and that will affect the rate at which the Secretary of State sells his Council bills. Not only that, but it is just possible that it may also affect the total amount the Secretary of State may be able to obtain in a year by selling bills and transfers. Of course, if the Secretary of State cannot sell as much as he requires to finance the Home Treasury, the result will be some inconvenience both to him and to the Government of India in the long run.

4342 In recent years he has been able to sell more than sufficient, I think?—That is so. Of course it is possible that circumstances may have somewhat changed in recent years, and that there may not be now the same objection to lending money to the Presidency banks as there may have been in the past. I think possibly that the objection that these loans may interfere with the ability of the Secretary of State to sell the full amount of Council bills, which he requires to finance the Home Treasury, is probably not quite correct under present conditions, because I think the exchange banks in India must get as much money by means of Council bills or imports of gold as would be required to meet the balance of trade, and the result of the Government making temporary loans from its balances to the Presidency banks would be at most to transfer the demand for Council bills from the busy season to the slack season, it will mean a falling off in the demand in the busy season and a larger demand in the slack season.

4343 If it had that result would you regard it as advantageous to the Secretary of State?—It would not be quite advantageous, because the average rate at which the Secretary of State can sell the bills and transfers will be somewhat reduced. In the busy season, if the banks wanted the money in India quickly and readily owing to a stringency in the local markets they probably would take a large amount of telegraphic transfers at a high rate, whereas if they got a temporary loan at that particular stage and had to repay it by remitting funds later on in the year then they will probably take only bills and not transfers. The effect, therefore, would be a reduction in the average rate at which the Secretary of State can sell bills and transfers on India. On the other hand, it is possible that this loss will be largely counterbalanced by the profit which the Government of India would make from the interest on the loans which it issued to the Presidency banks, so that it is an experiment that seems worth trying at any rate, inasmuch as, on the whole there might not be any ultimate loss to Indian revenues.

4344 You see no practical objection on the part of the Indian Government to these loans?—No. It may result in the Government of India having to retain a larger proportion of the surplus balances in India than it now does, but I do not think that that would result in any real inconvenience.

4345 You are not afraid that if Council bills were not sold in the time of pressure, the Secretary of State would be unable to sell enough in the slack months to meet his requirements?—Personally, I do not share the apprehension because I think the balance of trade must be settled somehow or other, and that the import of money, either by means of Council bills or by means of gold must satisfy the balance of trade taken over a series of years.

4346 Assuming that such loans were to be sanctioned, for what months of the year would they be required?—When the Committee of the Bengal Chamber of Commerce approached the Government of India on the subject on the last occasion, which was in 1899, they said they wanted the loans between January and April.

4347 Would you lend to anybody besides the Presidency banks, assuming that such loans were to be recommended and sanctioned?—I think for the present I would confine the experiment to lending to the Presidency banks, because, after all the Presidency banks stand more or less in the position of Government banks, and it is only proper that Government should deal with or through, them.

4348 I presume you would take securities from them for the amount of the loan?—Yes, I would

I may mention that there is an arrangement under which we can lend money to the Presidency banks at times of stringency at the bank's discount rate. As a matter of fact, we have made such loans on several occasions in the past, but there has been no demand on us for such loans in the last five or six years, and it is possible that there is really no necessity for such loans nowadays.

4349 On the other hand, I think it has been suggested to us that the fact that the Government of India have only made those loans at the bank rate deprives the banks of all inducement to take advantage of the offer, because the banks could only lend money at the same rate at which they borrowed it, and would get no reward for their trouble, and therefore they did not like to apply to the Government for the money. Do you think there is force in that?—Yes, of course there would be some force in it. If the bank did not get any reward for the trouble they took in the lending of the money, it would act as a deterrent from its taking such loans.

4350 At what rate do you think the Government of India should lend, if it lent at all? Should it lend at something below the bank rate?—There is no use in lending at the bank rate if no one will take the money at the bank rate, so that if the Government of India really wants to give larger assistance to trade, and trade requires the assistance, I think it would be desirable to lend it at some fraction below the bank rate, so as to leave the bank, which does the business, some margin of profit.

4351 What sort of security ought the Government of India to require, do you think—its own paper?—I think that is what it actually requires as a matter of practice, and to start with, I do not think we should go the length of taking other securities.

4352 Not even the best independent securities Port Trusts, for instance?—Of course we might make an exception in the case of Port Trust securities, because they are in fact as good as the securities of the Government of India.

4353 Supposing the Government of India had decided to make such loans, and had been able to do so for three or four years, then let us suppose that from one circumstance or another their balances had shrunk and in the fifth year they were unable to give the accommodation, I think you have already said that one of the reasons which had deterred the Government from doing it in the past was the fear that that would have a rather disastrous effect upon trade?—That is so.

4354 Do you think that view is shared by the Indian commercial community? I ask you the question because I think the witnesses who have come before us have said they did not think there would be much difficulty arising from that cause?—I think, in the past, members of the commercial community in India have themselves admitted this difficulty, and possibly to meet that argument the better plan may be not to lend out money from the Treasury balances, but to have some sort of elastic paper currency.

4355 I think we will come back to that later?—After all, it is not really the function of Government to lend money for the benefit of trade in India.

4356 As I understand it, the criticism directed against the Government of India is that as a tax collector it bottles up a great deal of money just at the time of the year when the stringency in the money market is greatest, that it does not immediately require that money for its own use, and that it would be of great assistance to the money market to have that balance freed at that time?—The stringency in the money market could be easily met also by an elastic paper currency, and of the two alternatives an elastic paper currency would be a better solution of the difficulty than lending money from the Government balances.

4357 If assistance is to be given by the Government to trade, would you prefer that that assistance should be in the form of some rearrangement of the management of the Paper Currency Reserve rather than in the form of loans from the Treasury balances?—Yes.

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[Continued]

4358 At the same time, I gather from what you said earlier, the Government of India has been actuated by this desire to serve trade in closing the treasuries and handing over the balances to the banks?—Quite so, in fact the Government of India tries to do all that it can be reasonably expected to do, and as a matter of fact I believe it leaves larger balances nowadays even at the head offices of the Presidency banks than it used to do

4359 It does not therefore seek to keep its balances at the head offices down to the fixed minimum?—No, it never does so

4360 Does it keep as little as it can in the reserve treasuries, and put as much as it can, in the banks?—No, it cannot be said that it does that either. The arrangement is that it allows its balance at a Presidency bank to mount up to a certain figure, and if it exceeds that figure, which is about a crore in the case of the Bank of Bengal and a smaller amount in the case of the other banks, then it transfers the surplus from the bank to the reserve treasury, but then on occasion it would even allow its balance in the Presidency banks to go above that limit

4361 When it leaves the money with the bank it receives no interest, does it?—No, nothing

4362 But the money is available through the bank, or a portion of it, for trade purposes?—Quite so

4363 When it transfers it to the Treasury, of course the Government of India equally earns nothing upon it?—Quite so

4364 But it is not available for the purposes of trade?—That is so

4365 Would you give me briefly the reasons for the establishment of the reserve treasuries?—I think the reason was that there was some trouble which arose in 1874 and 11 years previously owing to the Government keeping all its surplus balances at the head offices of the Presidency banks. In 1863 Government could not get from the Bank of Bengal the money which it wanted to meet certain necessary and emergent payments, and the same thing occurred in connection with the Bank of Bombay in 1874. In the latter case Government wanted only about 35 lakhs, to meet emergent expenditure in connection with operations undertaken to relieve distress expected from scarcity in Bengal. The demand evoked a protest from the bank that the withdrawal would probably result in a panic and dislocation of business in the money market. The last-named incident was what actually led the Government of India to introduce the system of reserve treasuries

4366 Do you think the danger of such a state of things recurring is great at the present time?—I cannot say that the danger has passed away. In 1898, when the banks approached the Government of India on the subject of the use of Government balances in aid of banking resources in India, the bank rate had gone up to something like 13 per cent, and possibly, but for the institution of the reserve treasuries, the state of affairs which took place in 1874 might have repeated itself in 1898

4367 On the other hand, would it be fair to assume that, if the Government had lent more money to the banks, the bank rate never would have gone to 12 per cent?—It is very probable that that result would have been obtained, but *per contra* it might have been that if there were no reserve treasuries, the banks would have used Government money to carry on the ordinary business of trade, which ought to be financed by them from their own capital, and that they would have found it very difficult to surrender the money if and when it was required by Government. I may mention that 1898 was a period of great stringency with the Government of India also so far as the balances went, and if the Government of India, having lent its surplus balances to the Presidency banks, had wanted to withdraw them, we would probably have had a repetition of the experience of 1874.

4368 Therefore, to obtain perfect security you think it is essential that the system of the reserve treasuries should be maintained?—I think so

4369 I suppose it is the case that some inconvenience is involved to the Indian money market in consequence of the establishment of that system?—It is so. Possibly it results in the bank rate rising rather high in the busy season, because so much money is withdrawn from the market, but it is not the business of Government to provide money for the purpose of trade, and it ought only to place so much at the disposal of trade as it conveniently can. If the placing of all its balances at the disposal of trade results in inconvenience to it, I think it would be perfectly justified in having a separate reserve and not making any portion of that money available for trade purposes

4370 I think everyone would agree with you in that statement. The criticism, as I say, is not that the Government neglects its business because it does not help trade, but that the Government, by withdrawing more money than is needed for its own particular requirements at a busy portion of the year, actively hinders trade. I rather gather that you say that may be so to some extent, but it is done as little as is possible?—That is so

4371 And that to go further might endanger security?—Yes

4372 Suppose the Government of India were willing to lend money, what amount do you think in a normal busy season would the market take up?—I think one of the members of the deputation from the Committee of the Bengal Chamber of Commerce which waited on the Government of India in 1898 said that the amount needed to relieve stringency in the money market would not be large and would be about one million. That, of course, is a question to which different people would give different answers, but if we are to judge in any way from the demand which is made for telegraphic transfers in December or January, the amount may be a pretty large figure. Another of the members stated that the demand for such assistance would be reduced when India had a stable exchange, and if that was correct, then the demand at the present day ought to be less than even one million.

4373 I think it follows, from what you have said that you are clearly of opinion that it would be impossible simply to abolish all the reserve treasuries and transfer all the Government balances to the Presidency banks?—Yes, that is my opinion

4374 You have, I think, already told me that you would not recommend under any circumstances, in the first instance, loans to anybody except the Presidency banks?—Quite so

4375 In these circumstances, is it a fair inference from what you have said, that you do not think the Government of India could have used to advantage in India any part of the balances recently held in London?—Yes. If the trade could not have taken more than a million, of course it follows that the Government of India could not have used advantageously any considerable portion of the surplus balances in India.

4376 You have already spoken of the possible effect of the sale of Council bills on any such loans made in India, the fear of adversely affecting the sale of Council bills has, I think, been one of the principal reasons for not doing it, has it not?—Quite so

4377 But on the whole you are not very much impressed with the danger?—That is the position

4378 In regard to the balances in England, they also have been very large for the last few years, have they not?—Yes

4379 That, I think, has been mainly due to the large surplus receipts from Council bills?—Quite so

4380 And those have been due to the considerable surpluses which have accrued in each of these years above the budget estimates?—Partly that, and partly to the lapses in the grants that were made for the railway capital expenditure.

4381 Why has there been so much under-expenditure there?—I think it is due partly to some difficulty in obtaining stores from England, and partly to more time being taken than was anticipated in preparing and sanctioning proper plans and estimates, so that there was some delay in commencing the works.

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[Continued]

4382 Has expenditure been affected at all by the difficulty of getting labour in India?—No, I do not think that has affected it to any degree. There may have been one or two cases, but I do not think they have materially affected the spending of the money.

4383 Generally speaking, could you carry out an even larger railway programme than that which has been provided for, without meeting with any labour troubles?—I am afraid I am not competent to answer that question, but thus much I can say, that in 1912-3 the railways were able to spend practically the whole of the capital grant, which amounted to over 10 millions. That indicates that there were no labour troubles. I may also mention that a good portion of the money which is allotted for railway capital expenditure goes to meet the requirements of open lines, mainly, that is, to meet the cost of additional rolling stock, and here labour questions do not really come in.

4384 Unless they are English labour questions, or European ones?—That is so.

4385 I think the balances in London have been increased by borrowings on the part of the Secretary of State?—There have been some anticipatory borrowings.

4386 In those cases, does the Secretary of State act on the advice of the Indian Government?—No. What happens is this. The budget programme of borrowings is fixed some time about the end of the preceding year, and the Government of India and the Secretary of State settle between themselves what amount of loan will be raised in England and in India respectively, after that stage it is not usual for the Secretary of State to consult the Government about the amount of the sterling loan.

4387 In that case the consultation between the Secretary of State and the Government of India as to the amount of borrowing to be done takes place before the opening of the financial year?—Quite so.

4388 In the review which they make, do they look further ahead than the coming financial year, or do they confine themselves to one year?—As regards the definite programme of borrowings, they simply look forward to the coming year.

4389 And in agreement it is settled that so much will need to be borrowed in the course of that year?—Quite so.

4390 They arrive at that figure on the basis of the budget estimates, I suppose?—Yes, that is so.

4391 If in the course of the year revenue comes in more favourably than had been anticipated, is that fact communicated to the Secretary of State?—Yes. He gets the Comptroller General's monthly statement of the treasury transactions in India, which shows exactly how the revenue is coming in.

4392 Does the Secretary of State, having fixed before the beginning of the year, after consultation with the Government of India, the amount which he has to borrow in London, again consult the Government of India before actually issuing a loan?—No, he does not.

4393 Might it not be the case that in a good year if he did so consult the Government of India they would be able to say that the revenue was coming in so well that the loan which they had contemplated as necessary before the year began was now proved to be unnecessary?—Quite so, particularly if there was any apprehension that the loan would not be obtainable at a favourable rate, I am quite sure that the Government of India would advise the Secretary of State of that.

4394 Do you think there might therefore be some advantage in more frequent communication between the Secretary of State and the Government of India before the Secretary of State actually issues any portion of the loans agreed upon?—I think so.

4395 (Sir Robert Chalmers) Is it quite certain that these steps are not taken already?—The Secretary of State does not now consult the Government of India before actually floating a loan in the English money market.

4396 But there would be communications, I gather from a previous answer of yours, that would pass from the Government of India to the Secretary of State, not necessarily official utterances, but dem-

or semi official utterances, explaining the position, and the way the revenue was coming in, and so supplementing previous information that had gone forward?—That is so. The Secretary of State is now informed how the revenue is coming in, but there is no consultation between the Secretary of State and the Government of India as to whether a sterling loan should actually be raised or not just at the time when the Secretary of State issues the loan in the English market.

4397 As you say, the Government of India does supply supplementary information if and when it accrues in India?—Yes, it supplies information, but it never supplies any advice in the matter.

4398 (Chairman) It is not merely the total amount of borrowing, as I understand, but the proportion of the borrowing in India and in London which is settled in anticipation at the beginning of the year?—The actual amounts are settled as part of the budget programme.

4399 Might it not sometimes happen that as the year went on, the Government of India would see the possibility of raising on favourable terms in India a larger proportion of their total needs than they had at first thought possible?—That contingency might arise. Under existing arrangements, the Government of India tries to raise in India as much as it is possible to get out of the market on reasonable terms.

4400 Latterly, the rupee loans in India have been very successful?—That is so.

4401 Do you think there is much possibility or probability of an extension of borrowing in India in the course of the next few years?—The expert opinion on that matter is that it will not be possible to borrow larger sums than what we actually take from the market without further reducing the market price of rupee paper.

4402 The last two rupee loans in India I think have been issued at a better price than the sterling loans in London?—Yes.

4403 But you do not think that the better prices would have been maintained if the Government had sought to raise a larger proportion in India?—I think that that is the opinion held by bankers in India. The people we usually consult before raising our loans have given us that advice.

4404 I think you said just now that it was the policy of the Indian Government to raise as much as they could in India on satisfactory terms?—Yes, that is so.

4405 The object being to restrict as far as possible the creation of new debt in England?—Yes, to restrict the growth of the sterling borrowings.

4406 These borrowings are, I think, entirely for productive capital expenditure?—They are mostly for that purpose. Of course, in recent years we are raising sums for the construction of Delhi.

4407 Putting the creation of the new capital at Delhi out of account, the money has been almost entirely raised for railways or irrigation works?—Quite so.

4408 Do you happen to know whether the Government of India have considered whether it would be advisable to try to encourage private enterprise to do more of this work, in order that so they might lessen their own capital responsibilities?—I am afraid I could not answer that question, as I have no definite knowledge on the point. My recollection is that they afford all reasonable facilities to encourage private enterprise. At the same time, the railways constitute a very valuable asset to the Government of India, and it is possible that when questions of handing over the State railways to private companies have arisen they have not favoured the idea.

4409 I understand it would not come within your official responsibility to advise upon that point?—No, it would not.

4410 Now I should like to ask you to tell me as briefly as you can, how you set to work in India to prepare an Indian Budget?—We prepare some sort of rough forecast in November just after the autumn monsoon has been fairly established. For this purpose we obtain from the Civil Account officers their estimates of the revenue and expenditure for the current

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year. We also obtain from the accounts officers who maintain the accounts of the important Imperial departments, *e.g.*, railways, military services, posts and telegraphs, &c., their estimates of revenue and expenditure. We examine these various figures, and we settle what we consider to be the preliminary revised estimates for the current year. From those figures, after making due allowance for the normal growth of revenue as well as of expenditure, we prepare a rough forecast for the following year. This forecast gives us in normal years a certain amount of revenue surplus, and then we discuss to what purposes this surplus is to be devoted, whether we should reduce taxation, or whether we should spend it in meeting needs for the improvement of various branches of administration, *e.g.*, education, sanitation, and things of that sort, or whether it should be applied in both directions. Then we submit our proposals for dealing with the surplus to the Secretary of State, who passes orders on them. That constitutes the first stage of our budget work.

4411. At about what time of the year would these sketch proposals reach the Secretary of State?—Usually about the beginning of January. At the same time we prepare the programme of capital expenditure. We know from the rough forecast of the revenue account what portion of the revenue surplus we can allocate to capital expenditure. We also prepare a rough forecast of the amounts that we can borrow in India and in England—of course, the latter figure is settled in consultation with the Secretary of State. We then commence the next stage of our budget work. About the beginning of January we get the regular budget estimates from the provincial governments. There are in India nine provincial governments which have got certain financial powers. Of course, these powers are more or less restricted by rules which have been laid down by the Government of India and the Secretary of State, but the provincial governments have got some amount of freedom in spending the revenue which is placed at their disposal. They prepare their budget estimates, both of revenue and of the expenditure that they propose to incur from it. Nowadays they have to consult their legislative councils as regards the distribution of their surplus money, but in January it is not possible for them to do so. What they do is this. In sending up to the Government of India the first edition of their budget they put in a lump sum, so many lakhs, the distribution of which they will decide later on after consulting their respective councils. We get these budgets, and our main duty in connection with them is, firstly, to examine the estimates under certain heads of revenue. The revenue under some of the heads—land revenue, excise in some provinces, stamps, and income tax—is shared between the Government of India and the provincial governments, so that the Government of India has got an interest in the proper estimating of revenue under these heads. The Government of India is, moreover, ultimately responsible for seeing that the provincial governments keep their expenditure within the resources at their disposal. It must therefore check any tendency on the part of a provincial government to over-estimate its revenue so as to get a larger spending grant for the following year than it ought to. After the estimates of revenue have been checked, the Government of India simply prescribes the limit up to which the local government can incur expenditure in the following year. That finishes the examination of the provincial estimates in the first stage.

4412. Suppose that the expenditure by a particular provincial government sanctioned by the Government of India proves to be in excess of the revenue, how is the deficit met?—Each of the provincial governments is required to maintain what is called a minimum balance, below which it can not ordinarily reduce its balance, so that if in any bad year the revenue falls short of the budget estimate and the expenditure cannot be reduced below the budget grant, the deficit is temporarily met by drawing on the provincial balance. As a matter of fact, the provincial government may for the time being have a larger balance than the minimum, and then it may not have to draw upon

the minimum balance, but if it was working about the neighbourhood of its minimum balance, it may have to use temporarily a portion, or the whole, of its minimum balance, or even to take a loan from the Government of India. In that case, the Government of India would insist on the provincial government making up its minimum balance at the earliest possible opportunity.

4413. Are those balances of the provincial governments kept in the provincial government treasuries, or in the central government treasuries, or in banks?—There are no provincial government treasuries as distinguished from those of the Imperial Government. These provincial balances are more or less of the nature of credits, and the Government of India has the disposal of all the money. It manages the treasuries, but it keeps an account showing the amount which each provincial government has got to its credit.

4414. So that in considering what amount of money is at any time locked up in the Government balances, the Government balances about which you were speaking earlier are inclusive?—Quite so. At the moment there are about 10 crores of provincial balances included in the balances of the Government of India.

4415. Now, will you resume your account of the making of the budget?—When we have finished our examination of the first edition of the provincial budgets, we communicate to the provincial governments the figures of the budget estimates for revenue and expenditure as passed by us, and we tell them that they can distribute the total sum that we have allotted as their expenditure grant for the following year among the different heads of account in consultation with their councils. After we have finished with the estimates of the provincial governments, we examine the estimates of the wholly Imperial revenue and expenditure. The main items are, firstly, the military services. Of these a detailed estimate is prepared by our Military Finance Branch, in consultation with the Military Accountant-General and the Army authorities, *viz.*, the Commander-in-Chief and his staff. At the end of December, we have already decided, in connection with the preliminary budget forecast, what sum of money we can allot to meet military expenditure in the following year. If we find that the total of the detailed budget exceeds that limit owing to some special causes, we may have to raise that allotment in January or February if we find it possible to do so. Secondly, there are the estimates of the smaller commercial departments, the Post Office and Telegraphs. The Post Office estimates do not generally give much trouble, because the expenditure is usually kept well within the revenue, and the work of the department generally results in a profit. In the case of the Telegraphs, the expenditure has in recent years been higher than the revenue, mainly owing to the need for the establishment of radio stations, and we have to go into these estimates carefully, and allot as much money as we conveniently can for the efficient maintenance of the service. Then comes the most important Imperial department, the Railway Department. There, it is very difficult to make any correct estimate, owing to the magnitude of the transactions and their liability to respond to the agricultural prospects and trade conditions of India. Still, we make the best estimate we can with reference to the advice of the administrative authorities. After we have settled the estimate of revenue, we decide how much money is to be allotted towards the working expenses of the railways. We have arrived at some sort of preliminary conclusion on that point also in December when preparing our budget forecast, but when the detailed demands of the railway administration have come in, and we may have to alter our preliminary figures with reference to these demands and our ability to allot a larger sum towards the working expenses of the railways. Lastly, there are some other heads under which revenue and expenditure are wholly Imperial. One of these is opium. The estimate of opium revenue in recent years has presented great difficulty. The Government of India, as a matter of policy, decided that they would only budget for what they call the

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[Continued

surplus standard\* of revenue in each year, and would postpone the consideration of the disposal of any accrued surplus from this source until later on in the year, in December and January. Other important Imperial heads are salt, customs, mint, and the charges of the central administration and of the survey of India and other similar scientific departments. These are also examined about the end of January. We also get, about the second week of January, the estimates of the India Office, which show the amount of revenue and expenditure, the amount of capital expenditure, the capital liabilities in connection with the discharge of debt which must be met in the following year, and other receipts and disbursements outside the revenue account. When these various estimates have been settled we compile, about the beginning of February, the total figures of Imperial revenue and expenditure and of provincial revenue and expenditure for the whole of India, and then we again examine the ways and means position. We know what the Imperial surplus will be, and we know whether the provincial governments will draw anything from the balances which they have got on deposit with the Government of India, or whether these balances are likely to be increased in the course of the ensuing year. We also know what amount we are going to spend on capital expenditure, on railways, irrigation works, &c, in the following year. Then, again, we have got another set of transactions called the deposit, advance, and remittance transactions. In India the practice is for the local boards, the Mofussil municipalities and other similar bodies to bank with the Government of India and to deposit their moneys at the Government treasuries, from which they draw such sums as may be required from time to time. It is also the practice of the Government of India to issue loans to cultivators in times of famine, and for land improvement and certain other purposes in normal years, as well as loans to municipalities and other public bodies in certain circumstances, and to the native States to meet administrative needs and famine requirements. Estimates for all these various items of outlay, and the receipts in connection therewith, have to be prepared by the Government of India in consultation with the Comptroller-General. When we have got together all the estimates of capital, deposit, advance, and remittance transactions, we know exactly what sum will be required to meet the capital liabilities of all sorts in the ensuing year. We then prepare, also in the first week of February, a compilation of the ways and means position. I may here mention that at the time when we are settling the budget estimates for the following year for the various items of revenue and expenditure, and of the receipts and disbursements outside the revenue account, we also settle the corresponding probable actuals for the current year, which are technically called the revised estimates, so as to arrive at the probable opening cash balance in the budget forecast of ways and means. In this connection we depend mainly on the advice of our account officers and of the Comptroller-General. One main point on which we ask the help of the latter is this. The important Imperial departments, viz, the railways and the military services, draw money from the treasuries by cheques to meet their expenditure, and they also pay the bulk of their receipts into these treasuries. So we can always as regards the current year check the total net military expenditure, as well as the net railway revenue and capital expenditure, from the Comptroller-General's estimates of the transactions of these departments with his treasuries. The second compilation, both of revenue and expenditure and of the ways and means position which I have referred to, is the first regular budget compilation, the previous compilation in December being only a forecast. If we find that this compilation indicates any material variation in the revenue surplus as compared with the forecast, we either curtail the budget programme already settled or devise means for spending the additional surplus. Then we go to the Secretary of State about the beginning of February with any

alterations which we may consider necessary in our earlier proposals regarding both the revenue surplus and the ways and means programme.

4416 Is it then that the estimates are finally settled?—No, they are not final even then. About the first week of February we get the provincial estimates back from the provincial governments. They inform us of any important corrections which they think are necessary in the revenue heads, and if the result of these corrections in any province is a large deterioration in provincial revenues the local government must curtail its total expenditure grant accordingly. If, on the other hand, the corrections result in an improvement, it is open to the local government to ask for an addition to its expenditure grant for the following year. We go through these provincial estimates again, and finally settle the estimates of revenue as well as the provincial grants for expenditure. The same process is repeated as regards the Imperial items of revenue and expenditure. In some cases, particularly the railways, there have been very big variations at this stage from the earlier estimates. Then about the middle of February we finally make up our estimates. They are then presented to the Imperial Legislative Council in the form of the Financial Statement. That represents the financial proposals of the Government of India for the following year, but it is not the final budget.

4417 That, I take it, is only settled by the vote of the Imperial Legislative Council?—What happens is this. Any member of the Council can move a resolution asking the Government of India to make changes in taxation or to allot money to some definite object for which no provision has been made in the budget, or he may ask the Government of India to increase or reduce the provision under any particular head. Even if that resolution is carried, the Government of India is not bound to accept it—it may or it may not do so.

4418 (Mr Gillan) It takes the form of a recommendation to the Government of India, does it not?—That is it.

4419 (Chairman) In the main, as I understand, the budget may be said to be settled in the month of February?—That is so, except as regards important variations. After the Council have discussed the Financial Statement and have had an opportunity of placing their recommendations in respect of it before the Government of India, the latter go through the estimates again, but at that stage they make only important alterations, i.e., only such corrections as are likely to affect materially their calculations about the revenue surplus or about ways and means, and then about the end of March they finally present the estimates to the Council. At that stage the Council cannot make recommendations in respect of the estimates.

4420 At what point would the Government of India in conjunction with the Secretary of State have to make a decision as to whether they would propose an increase or a decrease of taxation?—That would be at each of these stages. The first proposal is submitted to the Secretary of State about the beginning of January.

4421 When would the final decision be taken?—The final decision would be taken about the middle of February.

4422 The official year begins in April?—On the 1st April.

4423 The accuracy, or the realisation of the budget forecast depends, I think you have said, mainly upon the condition of agriculture?—Upon the condition both of agriculture and of trade.

4424 Trade and the railways being themselves very largely dependent on the harvest?—That is so.

4425 All these estimates have to be made at a time of the year when the Government cannot possibly forecast whether the harvest would be a normal or an abnormal one?—Quite so, we cannot know anything about the position.

4426 I presume, therefore, that they budget for what you may call a normal harvest?—That is exactly so.

\* See in this connection H C 155 of 1911 p 4

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[Continued

4427 Do you know whether the Government of India have ever considered whether they could not make their forecast with much more accuracy and more satisfaction to themselves if they altered the date of the financial year?—So far as I can recollect, the question has not been examined in recent times. I should think the main point was that they followed the practice in England, and having done so they have never given a serious thought to altering it.

4428 Of course there is always inconvenience at the moment of change in a matter of that kind, but setting that aside, and setting aside for the moment any objections that might be raised in England, do you think it would be an advantage to the Government of India to alter the date?—I must say I have not thought about it.

4429 Other things being equal, it would enable you to estimate with greater accuracy, would it not?—Yes, but even if we altered the date and made the year end on the 31st December, the result would be that in January we would not know exactly how the accounts of the preceding year stood. In any case we will certainly not be able to forecast the course of the ensuing monsoon much better than we do now. The only advantage will be this, that we will know more definitely than at present how we stood as regards the past year. I do not think the change of the financial year so as to make it terminate on 31st December will in any way help the Government of India in forecasting the course of the monsoon in the following year.

4430 I was wondering whether you could not postpone the beginning of the financial year to a date at which you would have some knowledge of the monsoon—suppose we take the end of October?—Such a change would probably enable us to frame a better estimate than we can now. We have got two monsoons, the autumn monsoon and the winter monsoon, and we would not be able wholly to meet the difficulty, but still, it would be better than the present position.

4431 The large balances of which I have spoken, which have accrued in recent years both in India and in London, I understand from you, and I think we have had it from another witness, include sums which are already allocated and which are placed at the disposal of the provincial governments?—Quite so.

4432 They are not what you may call free money within the control of the Government of India at the time when it shows them in their balances, and while therefore they are a credit to the Government of India there is a corresponding debit?—The actual money is in the hands of the Government of India, but it involves on them a liability to supply the provincial governments with any sums which the latter may require, out of the amounts standing to their credit, to meet provincial expenditure which has received proper sanction. A good portion of the Government of India's balance consists of similar items.

4433 Do you think it would tend to avoid misconception, if, in publishing the balances you eliminated those sums which had already been promised, though not actually spent, if, in fact, you carried them to a suspense account and showed them in a suspense account separate from the free balances of the Government of India?—They are actually shown in a suspense account, but when we state our cash balance we show the actual amount that is held in the treasuries. As it is apart from this balance which has been promised to the provincial governments, there are considerable sums which really represent the balances of local boards and municipalities.

4434 I noted that you said that also. The general effect of that as it seems to me, is to make the casual or careless observer think that the free balances of the Indian Government are very much higher than they really are?—The published cash balances are certainly not free balances. They represent the money which the Government of India holds in its treasuries. It may be that a portion of it represents savings banks deposits, while another portion of it represents the balances of provincial governments, and a third portion represents the balances of municipalities. It consists of the aggregate money which the Government of India has got under its control in its treasuries.

4435 It is the gross balance?—Yes.

4436 Some of our witnesses, I think—and I might even say for myself, as a member of the Commission that I have been a little puzzled—have confused those gross balances of the Government of India with the net balance of the British Government at the Bank of England, they are clearly quite different things?—Quite so.

4437 Would it not be worth while in any statement in which those balances appear, at least to append some note to show what was a free balance, and what was already allocated to specific purposes?—That amounts to preparing a statement of assets and liabilities. In fact, Sir Edward Law once prepared it and published it in one of his financial statements. If it is of any use, it could be prepared without much trouble, but all the necessary information can be obtained from the Finance and Revenue Accounts if it is wanted.

4438 I want to go back for a moment now to the question of the rupee loans. In the first place, what is the total amount of rupee loans outstanding held in India and in London respectively?—I could give you the figure, it is published in an annual return of the Indian Commercial Intelligence Department. I quote the following passage, "Of the rupee debt it is estimated that, including Rs 137 5 millions held in London, Rs 728 6 millions were held by Europeans at the end of 1910, and Rs 652 4 millions by Indians, the holdings by Indians being 47 per cent of the whole debt. It should be noted, however, that the invested currency reserve is included in the sum held by Europeans."\*

4439 Have you any later figures than those?—No, I have not. They indicate that 73 crores were held by Europeans at the end of 1910, and 65 crores by Indians. I could get later figures out if required.

4440 Of the portion held by Indians, roughly speaking, by what classes of the population is it held—do men of small means take any share in those loans?—The bulk is held in what may be termed big holdings, i.e., by rich men and men employed in commerce.

4441 I think you said that it was the policy of the Indian Government to raise as large a sum as possible in rupee loans?—Yes, that is so.

4442 I am not sure that I asked you, but at any rate I will ask you again in case I did not, what is their reason for so doing?—It is firstly a matter of policy. They consider it is politically good for the country that as much of the public debt as is possible should be held by the people of the country. In the next place, another reason is that the increase in the rupee borrowings tends to reduce the foreign debt, and consequently the home charges.

\* Part IV A of Statistics of British India 1910-1 Calcutta Government Press.

The witness withdrew

At the India Office, Whitehall, S W.

ELEVENTH DAY

Friday, July 4, 1913.

PRESENT

THE RIGHT HON AUSTEN CHAMBERLAIN, M P (*Chairman*)

LORD FABER  
LORD KILBRACKEN, G C B  
SIR ROBERT CHALMERS, K C B  
SIR ERNEST CABLE  
SIR SHAPURJI BUREJIBJI BROACHA

SIR JAMES BEGGIE  
MR ROBERT WOODBURN GILLAN, C S I  
MR HENRY NEVILLE GLADSTONE  
MR JOHN MAYNARD KEYNES  
MR BASIL P BLACKETT (*Secretary*).

MR BHUPENDRA NATH MITRA, C I E, recalled and further examined

4443 (*Sir Ernest Cable*) You said that the Budget Estimates were based on what is called the normal harvest. Could you define what a normal harvest means? Is it based on an average of yield?—That is so, that is to say, we assume that the rainfall would be moderate and not scanty or plentiful, that the crops would produce what you would call an ordinary yield, and that the trade conditions would be normal throughout the year.

4444 (*Mr Gladstone*) I should like to ask you a few questions about the working of the district treasuries. Are there any recent official reports showing the actual daily and weekly transactions?—No, I am afraid there are none.

4445 Could you give us a statement showing the actual balances on different fixed dates at specific treasuries?—No, not without getting the figures from India.

4446 You referred yesterday, I think, to the transfer of surplus funds to the currency chest?—Yes.

4447 Can you tell me how often that may be done in a year?—It may be done at the surplus treasuries almost every month. In fact, at times, when the revenue flows in in large quantities, it may have to be done weekly.

4448 Would a return of the receipts be sent to the Accountant General every week?—It is sent once every month ordinarily, but, when the revenue collections are heavy, the Accountant General often calls for a weekly or fortnightly return from the surplus treasuries.

4449 Then he takes action based on the return which he receives?—Quite so.

4450 So that there would not be much delay in transferring any surplus money to the currency chest?—No, there is not usually.

4451 I think you rather indicated that the substitution of a branch bank for a district treasury involved an increase in the minimum Government balance?—For the time it does. So long as the arrangement regarding a minimum guarantee holds good, it naturally involves some increase in the minimum balance.

4452 Would not the saving in establishment charges more than counterbalance the cost of such additional balance?—I have not made any actual calculation, but I am doubtful, because I do not think there is any material saving in establishment charges. At these places Government has still got to maintain what is known as the accountant's department. The bank simply takes over the actual function of receiving and keeping the money and of making the payments. But anybody who has got to make a payment must go to the Treasury, and there we must maintain the proper establishment to give him a chalan or authority to hand over the money to the branch bank. Similarly, as regards the payment, the Treasury officer issues some sort of a cheque or payment order on the branch bank, after satisfying himself that the payment is in order, and that the party who claims the money is

entitled to it, then the branch bank makes the payment. So Government saves only a part of the Treasury establishment, not the whole of it.

4453 You would, I suppose, acknowledge that a branch bank ought to be able to conduct the business more economically by being able to combine banking business with Treasury business?—*Prima facie*, it ought to be so, but the difficulty, I believe, is that at these places the need for banking facilities is not very great, and that is why the bank, when it opens a new branch bank and gets the transfer of Government business, insists on some sort of minimum balance for a certain number of years. It is possible that after this period is over the guaranteed minimum balance will be reduced, or it may be possible to dispense with the guaranteed minimum.

4454 Do you not think that on balance it would be advisable for the Government to hold out inducements to the bank to establish these branches?—For that very reason I think it does so. Otherwise I do not think it would ever agree to maintain a minimum guaranteed balance.

4455 I should like to ask you one question on the subject of permanent loans. In England various securities are issued by the India Office to meet the requirements of the money market—short term, fixed dates, bearer and floating bonds. Would not there be a demand for securities of this kind in India?—It is possible that there may be a demand, but then the question is whether it is any advantage to the Government to get this loan. It is very probable that we will get the money at what is known as the slack season in India, but that at the beginning of the busy season, which is more or less our tight season also, we will be called upon to return the money which has been lent to us for a temporary period, and it may not be quite convenient to the Government of India to pay back the money just at that time.

4456 But suppose the bearer or floating bonds were issued with a currency of five or ten years there would be very little fluctuation in price, and these securities would be extremely convenient for borrowing, whether from the Government or from the banks and would supply a popular want?—Quite so. That would give the Government some additional capital for the time being. But there are objections on principle to raising money by means of these temporary debts. For example, if temporary debt has got a currency of five years and at the end of the five years, when the time comes for repaying it, and there is, let us suppose, a famine in India, Government may not find it possible to repay the money without raising a permanent debt on less favourable terms than it would have got if it had raised the money by permanent debt at the time when it floated its temporary debt.

4457 Quite so, those conditions are met in London, and they might be met there, by bills for a year in the case of an exceptional time, or something of that sort?—My impression is that the India Office them-



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selves do not quite favour the idea of raising money for long periods by means of temporary loans. The policy is to raise temporary debt in times of pressure and stringency and then to substitute for this temporary debt a permanent debt as soon as market conditions make it possible to do so on reasonable terms.

4458 My suggestion is that these securities would be extremely convenient for the purpose of loans, say from the Government itself, because they would be redeemable at an early date, they would not vary in price, they would be good security for the Government, and they would be popular with bankers and others to be used for that purpose?—I admit that there would be some advantages, but then there may be countervailing disadvantages, and the disadvantages may be greater than the advantages.

4459 There are one or two questions I should like to ask you on the Budget year. The yearly forecasts are now made in December-January, I understand?—That is so.

4460 Of course, in December-January nothing whatever can be known about the monsoon—about the following season, but if the forecast were made in July-August the general course of the monsoon would be pretty well known?—Of the autumn monsoon, no doubt.

4461 You use the expression "the autumn monsoon", that is the June-July monsoon?—Yes, that is so.

4462 That is the really important monsoon, taking India generally?—Quite true, but not in all parts of India. For example, a failure of the winter rains would largely affect say the wheat crop in the Punjab, and possibly also in the United Provinces.

4463 That would not be known in December-January, would it, you might have favourable weather later on which would assure the wheat crop?—Quite so, but then in January, or at least about the beginning of February, we have a pretty fair idea how the winter rains will turn out.

4464 But still, the wheat crop in the Punjab, and the North-West is not of similar importance to the general rice crop throughout India and Burma, which depends upon the June-July monsoon?—I do not quite accept that statement as regards the Burma rice crop. I am not sure that it absolutely depends on the July rainfall.

4465 (Mr. Gillan) May I ask a question upon that? You are not suggesting, are you, that a failure of the winter rains is of anything like the same importance as a failure of the regular monsoon?—No, not quite.

4466 Not quite?—No.

4467 Is it anywhere in the same latitude, so to speak?—I think so, in fact, I think if there is a failure of the winter rains there is a considerable effect both on the revenue and on the economic conditions of the country.

4468 (Mr. Gladstone) Assuming, as I do, that the June-July monsoon is the really important monsoon, it would be, would it not, a great advantage to Government to make their forecast in July-August rather than December-January?—Yes, there would be some advantage, that is quite true.

4469 Then you indicated that three or four months were occupied in preparing the figures for the Budget. Would it be necessary to have so long a time? Could not that be compressed into a couple of months?—I am afraid that it would be impossible, having regard to the fact that the estimates of the various Provincial Governments have to be incorporated in the Budget of the Government of India, and to the present procedure with regard to provincial Budgets. The provincial Budget has got to be considered in some form or other by the Legislative Councils of the provinces. Previously, I think, we used to finish the Budget in about a month, or a month and a half, but we had to lengthen the period after the constitution of these enlarged councils so as to give them some time to discuss the estimates.

4470 But probably if the Government of India considered it of importance to compress the time it might be managed?—I am not sure about that, in

fact, I doubt if it could be managed without curtailing the facilities now enjoyed by the Legislative Councils of discussing the Budget.

4471 If the forecast were made in July it would be possible, would it not, to close the financial year on the 30th September?—Yes, quite so.

4472 And that date, I understand, would coincide with the revised dates which have been recently settled by the Government for railway half-years and years?—Yes.

4473 You are aware that they have lately been changed?—Yes. Of course, the railway year now ends on the 31st March, the same as the financial year, but then, as all the railways make up accounts half-yearly, the change to the 30th September would not really affect them.

4474 (Mr. Keynes) Would there be any technical difficulties in the way of this proposal of changing the financial year to an October-to-September year?—Would that date be, for any reason, less convenient than the present date from the purely office point of view?—No, so exactly that, but then I think there may be objections from the administrative point of view. It might mean that the various local governments and subordinate officers would have to be tied down to some amount of office work at a time of year which they probably devote to touring. But I am not sure of this.

4475 (Mr. Gillan) From that point of view it is a better time, is it not, than in the cold weather?—Quite so. It is in the cold weather that they go touring. But, if the Budget of the Government of India is to be finally settled in September, the district officers will have to prepare their estimates some time in March or even February.

4476 (Mr. Keynes) There was some question raised yesterday about the supplementary information, which you supplied to the India Office as to how revenue was coming in in the course of the year, for their guidance in raising loans. You said, I think, that monthly returns of the Comptroller-General were forwarded?—That is so.

4477 What sort of document is that? Is it one from which it is easy for a person who is not actually in India to ascertain what the ultimate receipts of revenue are likely to be?—Of course, it is so difficult to make any safe forecast with reference to the actuals of a month or even of two or three months, and particularly if the India Office have to float their loan, as they did last year, in May. What actually happens is this. The Comptroller-General, immediately the Budget estimates have been settled, distributes the Budget estimates both of revenue and of expenditure over the twelve months of the year. Then at the end of every month he issues a printed statement comparing the actual revenue receipts and the actual expenditure with the distributed Budget, and that shows whether the revenue and expenditure are actually showing an improvement over the distributed figures. The India Office can, however, always find out from these returns whether the actual closing balance of the previous year was materially higher than the amount entered in the Budget Estimates. About that there can be no doubt, and if that balance shows any large improvement I think there would be no difficulty in their judging whether it is necessary to raise the full amount of the loan if the market is unfavourable to them.

4478 But this is simply a monthly routine document from which they can draw their own conclusions?—Quite so.

4479 There is no process by which the Financial Member or the Financial Secretary in India informs the Secretary of State from time to time as to what is known as to the likelihood of the estimate being realised?—No, that is the very point which I mentioned yesterday. They are not asked for any advice on the point. The India Office gets these routine papers, and they are more or less in a position to judge for themselves. They have never asked for the opinion of the Government of India in this particular matter.

4480 If the opinion of the Government of India was asked for they could probably give the India Office

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something more valuable and more definite than this routine monthly document?—Very probably

4481 In estimating the heads of revenue I suppose amongst the most important, and also amongst the most doubtful are railways and the land revenue?—Yes, and Customs also plays an important part

4482 In estimating these many months before you can have any accurate information as to how the seasons will turn out, do you assume something rather below the average of previous years, or on what principle do you do it?—As regards land revenue there is not much difficulty. We can find out what the demand is, and if there is no famine or failure of the monsoon or other special causes, which would necessitate any considerable suspensions or remissions of revenue, then we can make a fairly correct estimate of the land revenue

4483 Is the estimate which you publish in March, then, an estimate based on the hypothesis that there will be no important remissions?—Quite so. We only allow for ordinary remissions, not for any special remissions necessitated by famine or other abnormal circumstances

4484 It is rather, therefore, a maximum estimate than a minimum estimate?—For land revenue it is generally so. At the same time there are certain tracts where the land revenue assessment depends upon the area cropped, so that if the crops are better than the average in those tracts the land revenue returns will be higher than the normal figures

4485 In those tracts you know the actual average figures of the previous years?—Not exactly the actual average figures, we know at the time what the cropped area under assessment is, and the estimates are based with reference to that area

4486 The area which has been sown?—Which has been settled, so to speak

4487 I mean in these districts of variable crop area you cannot know, when you are making the estimates, what the area will be in the following year. In estimating that, do you take the average which was cropped in previous years or not?—We do not actually take the average of previous years. We allow for some growth over that average. There is always some normal growth over that area, and this normal growth is allowed for. In fact, if crops are plentiful the land revenue becomes considerably increased, on the other hand, if, owing to floods or failure of the rains or other abnormal causes the crops do not come up to the average, then the land revenue falls off

4488 I should be right, therefore, in concluding that on the whole, apart from some small adjustments, in your estimates of land revenue you do not make any considerable allowance for the contingency of a bad harvest?—Quite so

4489 They are rather towards the maximum than towards the minimum?—They are based, as I said, on the normal harvest. You cannot say it is the maximum, because if the harvest is a really good one, in some places you may get a larger return from the land revenue than if it is a normal harvest

4490 But that seems to differ from the impression I got from your former remarks, that it was based on an actual fixed figure. Is this normal figure a computed one or an average?—That figure is based on the actual figure of the previous years after we have eliminated from it all abnormal collections of arrears, and things of that sort. Then we make allowance for the normal growth of revenue, not for any abnormal growth or for any abnormal remissions or suspensions, and that is how we make our estimate

(Chairman) It is very much like the British Budget estimate

4491 (Mr Keynes) Then with regard to the other important item, in the case of railways have you any information as to how the estimating is done? I suppose for the most part you accept the figures of the railway authorities?—As a matter of fact we do not, we make very large corrections in their figures with reference to the actuals of the past year, but, of course, here also we try our best to eliminate all abnormal factors, and the corrections we accordingly

have to make are often very considerable, in fact, in some years they amount to something like two crores

4492 And in the case of Customs?—In the case of Customs we mostly base our Budget Estimate on the receipts in the ten months or the eleven months of the current year. Then we make allowances for any abnormal factors, for example, in recent years the imports of silver have been abnormally high, and in forming our Budget Estimate we had to allow for the fact that these high imports might not be continued in the following year. Similarly we make allowance for any other large abnormal factor which may have affected the revenue in the current year, such as the Burma rice exports, which are affected by a variety of causes, and therefore we take the Budget Estimate at what seems to us to be a normal figure

4493 I had formed a general impression that the estimates were based on so cautious a principle that there would be a surplus unless the year was a rather poor one, and a large surplus if it was a good one. You would not agree with that, I understand, from what you have said just now?—It is not wholly correct, for example, there was a year in recent times when the actual result, owing to famine, was a large deficit as against a small surplus which the Budget had anticipated

4494 Has there been any tendency for the Budget Estimates to be more cautious in quite recent years than they were say eight or ten years ago?—No, I do not think so

4495 You put down the recent large surpluses entirely to unforeseeable causes and to exceptionally good seasons?—Quite so, it is partly due to opium and partly to the very great improvement in the economic conditions of the country

4496 (Sir Robert Chalmers) The general prosperity of India?—Yes, quite so

4497 (Mr Gillan) As regards opium, it was due to a deliberate policy which excluded from the Budget Estimates a certain portion of the opium revenue in advance?—Yes, I think I mentioned that to the Chairman yesterday

4498 (Mr Keynes) I have one other point, not connected with the Estimates. In the million which you allowed in the minimum balance as lodged at the Presidency banks did you include the amount lodged at the branches or only that at the head offices?—No, that is only at the head offices. It is 4½ millions for the district treasuries, including the branch banks, and 1 million for the head offices of the Presidency banks, that makes 5½ millions. Then there is 2½ millions for the reserve treasuries

4499 I should like a little more information as to the precise relation between the Government and the Presidency banks at the branch offices. I suppose the amounts lodged there on Government account are very variable in amount—I mean at the individual offices?—At individual offices I do not think they are ordinarily much higher than what we keep at a district treasury. There may be a little more in cases where we have to give a guarantee under the new system, but otherwise I do not think that they are materially higher than what Government would keep at a district treasury

4500 I did not mean to inquire so much as to their absolute size, but rather as to whether they are very fluctuating? Are they much higher at some times of the year than at others?—If figures are required I think I could put in figures

4501 You have not any impression on your mind as to whether they are fluctuating?—I have no definite recollection, but I think I have the figures readily available\*

4502 I am asking these questions because I want to know whether it is necessary for the Presidency banks to keep at the branch offices a very large proportion of the Government deposits in cash. If the Government deposits are held at call and are of a very fluctuating character, evidently they would have

\* The figures are being obtained from India, and will be printed as an appendix to the Final Report

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[Continued

to hold large cash deposits there, and I wanted to know how far that was the case?—My impression is that ordinarily there is no material fluctuation in the balances kept at the branches of the Presidency banks

4503 Even speaking of the individual offices, not merely of the aggregate?—Quite so

4504 (*Sr Shapurji Broacha*) Of course, you are telling us the views of the Government of India, and not your own personal views?—No The views which I have given in several cases have been my personal views, and I think that is distinctly understood. They do not commit the Government of India in any way

4505 What would be the exact minimum amount that the Treasury requires for carrying on the business of the country?—The district treasuries?

4506 All put together?—It is roughly 5½ millions, without allowing for any margin or reserve, but if you allow for a reasonable margin and a small reserve it is 8 millions, the figure I mentioned yesterday

4507 That 8 millions does not include the balances belonging to the provinces or the municipalities?—It includes everything, it is the amount which is held at any particular date in the Government treasuries

4508 Then we are told that 18 crores or 19 crores is the minimum balance required, or 12,000,000 sterling You do not agree with that?—No As I tried to explain yesterday, that sum represents the minimum working balance which the Government of India wants at the end of March In India there is a period of high balances and a period of low balances That amount of 12 millions is required at the end of March, so that we may have a balance of at least 5½ millions in December, which is the month of our low balances

4509 Five and a half millions is the required minimum in December, and 8 millions for working balances, which leaves a little margin for the Government Then anything after 8 millions could be lent Of course, the Government may require money for other purposes sometimes all of a sudden—we know these contingencies happen in every country—but for the purposes of the Government 8 millions, or 12 crores, would be sufficient, keeping the margin of about 2 millions, because 5½ millions is the absolute minimum?—I would not say that quite as regards the end of the year, March 31, because apart from the 300 district treasuries we have got a large number of sub treasuries, about 1,500, and the land revenue mostly comes in, in the first instance, in those sub treasuries A good portion of the land revenue comes in in March, so that there may not be time to bring in all these revenue collections at the district treasuries by the end of the month, and the minimum balance in the district treasuries on March 31 must necessarily be higher than 4½ millions

4510 I understand all that, but I accept your version, that so long as the Government of India have 8 millions in the treasuries they have a fair amount of working margin for contingencies, because the absolute minimum is 5½ millions I accept your version as regards all these difficulties, and so on, but you require 8 millions in the treasuries always to keep a fair working margin?—I do not see how that follows We want 8 millions in December

4511 Five and a-half millions is the minimum which you require and 8 millions would leave a working margin 8 millions you will always have in the treasuries, there is no doubt of that That will leave a little working margin, but when there is 12 millions there would be 4 millions in excess, do you agree with that?—Yes But that 12 millions is required at a particular date, and the 8 millions at a different date

4512 Quite right, but I am speaking of that particular date when you have more than 8 millions That is a surplus which the Government at that time does not require, except in case of extreme contingencies?—I am not even prepared to say that, because what actually happens is this The Secretary of State's drawings are heaviest between December and March, and, even if we restrict our remittances to the amount required to finance the home Treasury, his

drawings will still be heaviest at that period, so that towards the end of the year we really want a higher balance in India

4513 Never mind I accept your version, as I said. You gave us a version that 5½ millions is the minimum, and 8 millions would leave a little margin for small contingencies, in order to keep money easy?—Anything over that would be a surplus for the time

4514 (*Mr Gillan*) May I explain one thing, Mr Chairman? I think what the witness means is that these 8 millions is the balance that is required about December with reference to the conditions of December, but that perhaps a slightly higher working balance would be required, say, in March, because of the different conditions of March (*To the witness*) Is that what you mean?—A slightly higher balance That is exactly so

4515 (*Sr Shapurji Broacha*) You say slightly higher It is 8 millions and 12½ or 12 millions, which is 50 per cent higher, that is not slightly higher?—That may be so

4516 For instance, if you have 12 millions you can certainly easily lend for the purpose of trade 2 millions?—The point is this We could in fact possibly lend temporarily if the trade would promise to pay it back to us say in the next month or so

4517 There is no doubt of the trade promising to pay back at the time when the loan terminates, there is no doubt of that, that contingency you need not calculate upon If Government promises that 2 millions taken in January would be repaid in April certainly the Indian market is such that the Presidency banks would be able to pay with absolute certainty, you can take that, and on that contingency I think the money could be lent?—Yes, in fact I have already said there would be no practical difficulty on the part of the Government of India in lending the money

4518 You have referred to what the Government would risk by lending the money I think prosperity of trade means prosperity of revenue?—Did I say the Government would get any advantage? What I have said is this, that the Government would lay itself open to certain risks, and the Government ought to avoid those risks as far as possible I think that is all I said

4519 But if the Government has not helped the trade up to now the Government would be working on the wrong policy?—I do not think it is a fact that they have deliberately not helped trade

4520 Never mind, I do not say that they did it deliberately, but that was their judgment and it was a wrong judgment What do you mean by saying that the Secretary of State sells, or keeps selling, Council bills for the settlement of trade until the balances are exhausted? You said that I think the Secretary of State has nothing to do with the settling of the balance of trade, except to get money which he wants here?—I am not sure that I used the exact expression What I think I said was this, that it is the practice of the Secretary of State to sell bills and transfers in excess of what he actually requires to finance the home Treasury, and that he does so to meet the demand on the part of banks for remittances to India. It is not the function of the Secretary of State to do so, but then it is beneficial both to the Government and trade, and for that reason he does it

4521 These 300 district treasuries often have surplus money which they can always transfer from one treasury to the other, sometimes one treasury has got more money than it requires, and they may have to meet demands at some other place, for instance, Bombay, and Bombay wants a transfer Of course, the Government does that transfer?—It is often done

4522 So these 300 district treasuries give facilities for trade by giving transfers?—Yes, quite so

4523 Are there not 800 sub-treasuries?—I could not give you the exact figure, but I should think there are nearer 1,500 than 800

4524 And they do the sort of business which a branch of a bank would do where there is no branch of a bank—transfer money from one place to another?—Some of the branches have got agencies where they have not got branches

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[Continued

4525 That is what I said, and these branches are allowed to use the minimum balance which they have agreed between them, the Presidency banks and the Government, they are allowed to make what use they like of the minimum balance?—Yes, they can

4526 What is the total Government balances in these branches?—I suppose we have every week a statement of the Government balances which there are in the branches?—I could give you the figures I have the figures, and I could give them if they are required

4527 They would appear in their statement every week?—I do not know

4528 They do appear?—In the statement published by the bank?

4529 They estimate the Government balances, so much in the Presidency towns and so much in the branches?—Yes, the figures are given in the statements published by the banks themselves

4530 For instance, at the end of September we know the conditions of the monsoon, and, except for the small winter crop, we know the condition of the crop to be exported. The condition of the different crops—jute, rice, indigo, and all those crops—is known at the end of September, at least, we know the condition of the monsoon at the end of September?—We know at least the effect of the principal monsoon

4531 I am talking of the principal monsoon. Up to September the monsoon throughout the whole country is known?—Yes

4532 And if you are framing your Budget in June to the end of September you know the condition of the railway earnings, you know the condition of the jute, cotton, and rice crops, all those conditions are known to you?—Yes

4533 The wheat crop is not absolutely dependent on rains, for instance in Gujerat you do not want rain at all, the dew does the business. The dew, of course, helps in growing the wheat in Gujerat?—Yes, but then in some parts of the country—

4534 I know that is not so in several provinces, in the United Provinces and in the Punjab, but then, of course, there to a good extent the canals help the wheat crop?—That is so in irrigated areas

4535 So that at the end of September, except for a very small amount of the quantity to be exported, everything would be known?—That is so

4536 Then if they were to make their Budget from October 1 they could forecast the character of the whole of the year and commence again next October, because on October 1 they will know what the next year will be like. Do you think in that month the heat would prevent the Government knowing these things?—The Budget would have to be prepared some time in July or August, but the heat would not affect in any way the Government of India, or any local government

4537 Of course, the loans could be raised in the monsoon, independent of public works?—Yes, but there is one difficulty. The Government would have no idea at that time of the trade conditions. The busy season would be from December to February or March, and the present advantage is that the Government has definite information as to how the trade conditions in the busy season are going to turn out. If the financial year is changed as proposed, it will certainly have to budget for normal trade conditions

4538 I beg your pardon. At the end of September we make up our mind what the export crop will be, and I think if we can judge, the Government can judge with equal certainty?—Is the produce an absolute index to the trade? Does it not depend upon the demand from other countries for the export of the produce? I doubt if they would be able to make a fair estimate of, say, the cotton movements at any time in July and August

4539 In July and August you cannot, because if the September rain fails half the crop perishes?—Yes

4540 At the end of September you are certain of the rain, you do not want any more until November or December?—Yes, but then you would have to frame your Estimates somewhere in August, even if the year opens on October 1

4541 Yes, but the progress of the monsoon goes on with the progress of the Budget making, and if odds and ends are to be put in you can put them in at the end of September or the middle of September?—I am not sure of that. If the financial year is to begin on October 1 the Budget must be settled in September

4542 I suppose your Budget makes provision for the normal growth even on the last season's revenue?—Yes, it does

4543 Of course, you cannot provide for the failure of the monsoon or for the failure of other things, and you cannot calculate to a certainty the coming railway revenue of the year or the coming land revenue of the year in January or February?—That is correct

4544 How do you make your calculations for the purchase of silver? For instance, you have 19 crores of silver now, and say at the end of August or September you are assured of your monsoon, how much silver do you think you ought to have for the busy season?—I think we have laid down that we want 18 crores to start with at the beginning of the busy season

4545 (Mr Gillan) 24 crores, is it not?—Yes, there is the margin of 6 crores in the Gold Standard Reserve. By 18 crores I meant the stock in the Currency Reserve

4546 (Sir Shapurji Broacha) And you would have those 18 crores in the Currency Reserve during the busy season?—Yes

4547 If it falls, you have to buy?—Quite so

4548 (Sir James Begg) When a change of taxation is contemplated when you are preparing your Budget, is it a matter of discussion between the Government of India and the Secretary of State?—Yes, all changes of taxation require the sanction of the Secretary of State

4549 Is it the procedure that the Government of India submits proposals to the Secretary of State?—Yes, quite so

4550 The Secretary of State does not suggest any alterations himself?—On occasion he has done that, but generally with reference to the proposals of the Government of India. When the proposals of the Government of India come to him it is quite open to him to say "You have got this amount of available revenue surplus to dispose of. Instead of disposing of it in the way you propose, please consider whether you should not adopt these other alternative methods." Thus, for example, supposing the Government of India proposed to reduce the Customs tariff so as to reduce their available surplus it would be quite open to the Secretary of State to say "I do not agree with you about this particular matter. Please consider whether it would not be better to reduce the Salt duty, and not the Customs duty"

4551 The Secretary of State does not propose any alteration off his own bat?—No, it is not usual for him to do so. He has not got the necessary information before him

4552 In the Budget Estimate for 1910-1 the amount of Council bills to be sold was put down as 15½ millions. Did that sum include any provision for capital expenditure?—Yes. What actually happens, as I explained yesterday is this. The Government of India, in consultation with the Secretary of State, finds out how much money will be available for capital expenditure. Now that money may be obtained either from the revenue surplus or from loans

4553 Loans in India?—Loans in India or in England. After the amount of the loans has been settled we settle the amount of the remittances from India to England. The Secretary of State estimates that he has got a certain amount of revenue expenditure to meet in England and that he has also got to meet a certain amount of capital expenditure. He then tells the Government of India. To meet these disbursements I will raise a certain amount by means of loans in England, I have got a certain amount of surplus balance which will be used for that purpose also, but there remains this difference of 15 millions, or whatever it may be. You will have to send that

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[Continued

" sum from India by means of Council bills, or, if Council bills fail, by actual remittances in gold " So that the 15½ millions to which you are referring was intended to cover all the payments at the home Treasury, both revenue and capital, in that particular year.

4554 Can you say how much capital was included in that sum?—I could give the amount of capital expenditure in England in that particular year and the amount of capital receipts, but it would be impossible to say how much of this 15½ millions was actually earmarked for capital payments in England.

4555 It is not earmarked in advance?—No, there is no earmarking.

4556 In the case of the current year the amount put down for Council bills is about 21,650,000. Can you say how much of that is intended for capital expenditure?—As I have already said, there is no earmarking as regards the Council bills or the remittances, but you can have a good idea of what portion of these Council bills is required for capital payments in England by working out the net capital expenditure in England in the year.

4557 You have told us about the advice that is sent every month, I think it is, to the Secretary of State, stating how much balance he may draw against?—Quite so.

4558 Does that mean that the whole of the surplus balances for the time being are specially held to meet Council bills?—Yes, they are placed at his disposal.

4559 (Mr Gillan) I think some of the evidence you gave suggested that there was a great difficulty about increasing the number of branches of Presidency banks without Government assistance?—Yes, I think that has been the experience in recent years.

4560 Do you know of any branch that has been started without Government assistance?—I do not think I could reply to that question definitely.

4561 Is it within your knowledge that the Bank of Madras have, as a matter of fact, started a number of what they call sub agencies?—Yes, they have done so.

4562 And in their case no Government assistance was given, I think?—No.

4563 In reply to the Chairman yesterday on the question of lending money from Government balances in India, you mentioned certain objections. One was, I think, that money for which the Government might have a sudden demand would be locked up?—Yes.

4564 That objection would not apply very strongly, would it, to money which was lent out, say, in January or February and was repayable by April? What I mean is that in that period there is no sudden demand likely to come on the Government through any seasonal calamity?—No, but then there may be other calamities apart from seasonal ones.

4565 Will you mention them?—There may be a big operation on the frontier, or a big war.

4566 But the probability, we will say, of a sudden demand on the Government is less at that time of the year?—That is so.

4567 They can see their way more clearly at that period?—Yes, that is so.

4568 Another objection which you mentioned was in connection with Council bills?—Yes.

4569 You mentioned that it might reduce the amount available for Council bills?—That is so. That is the view which has been put forward at times.

4570 I think that is another point. For the time being it would actually reduce the amount available for Council bills?—Yes.

4571 Then, when the Secretary of State has drawn all that he wants to draw, there is normally an amount left in our balance over and above the minimum working balance at that time of the year, is there not?—Yes, quite so.

4572 Which would be available for loans?—Yes.

4573 As regards the amount of Council bills sold altogether, or the price at which they would be sold, your view, I take it, is that there would be a reduction in the busy season and an addition in the slack season?—Yes, that is so.

4574 If the result was slightly to reduce the price obtained in the busy season ought there not to be a corresponding betterment in the price in the slack season?—Yes, probably that is so, but on the whole there is likely to be a reduction in the average.

4575 That is what I wanted to get at. How do you work that out?—Because in the busy season, when there is a stringency of money in India, they take a larger amount of telegraphic transfers. If we offered loans from Government balances, when the time came for repayment they would import money into India by means of bills, and as the rate for the bills is naturally lower than the rate of transfers, there is thus a probability of the average rate for the year being lower.

4576 (Sir James Begg) But the bank will be paying interest on the loans in the meantime?—Yes, I think I mentioned that yesterday.

4577 (Mr Gillan) So that this effect would result from the substitution of bills for telegraphic transfers, that is what you mean?—Yes.

4578 (Mr Gladstone) And that would mean a difference of  $\frac{1}{2}$  in the rupee in exchange?—Yes, that is the usual difference.

4579 (Mr Gillan) As regards the previous attitude of the Government upon the question of loans, it is the case, is it not, that in 1899 the Government of India did propose that loans should be given as a matter of system?—Yes, I think they made that proposal.

4580 And that proposal was negatived, as a matter of fact, by the Secretary of State on the ground that it would interfere with his Council bill operations?—Quite so.

4581 But it is also the case, is it not, that at that time the Government seem to have been thinking rather of an all-the-year-round loan, a more or less permanent loan?—I am not sure of that. No, I do not think it is correct. My recollection is that they distinctly stated that the loan would be given for three months, that was to be the maximum period of the temporary loan.

4582 (Sir James Begg) When was that?—That was 1899, I think.

4583 (Mr Gillan) I am not sure if I am right in thinking that you said yesterday that you would prefer loans to be given from currency?—I did not exactly say loans, but I said that the assistance to trade should be given from currency.

4584 You would prefer that method?—Quite so.

4585 But even if you were to give assistance from the Currency Reserve that does not dispose of this question of how you are to deal with the temporary surplus that you have in your Treasury balance from January to April, does it?—No, of course it does not.

4586 We have still to consider that question, have we not?—Yes. In connection with this I think I may mention one incident that I came across yesterday. It is possible, after all, that there may not be any demand from the banks for loans from Government balances in India. An instance, which goes to support this view, took place, I think, in 1907. The local branches of the Exchange banks approached the Government of India for loans from the balances in India, but the head offices of these banks said that they preferred using Council bills to taking such loans.

4587 There is one point I wanted to ask you with regard to the amount that is left with the Presidency banks. You said that the practice of the Government of India is to withdraw money from them when our balance with them exceeds a certain sum?—That is the ordinary practice.

4588 But it is recognised, is it not, that the banks may retain even a surplus above that sum on payment of interest?—Quite so, yes.

4589 That is recognised?—Yes, that is recognised.

4590 Have you ever known it to be done?—I know of no case in which actual interest has been charged, but I know of cases where a higher balance than the ordinary maximum has been left at a Presidency bank.

4591 That is so, but has a Presidency bank ever said to us when we were on the point of withdrawing

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[Continued]

our money, "Do not do it, leave it with us and let us pay interest"?—No, never

4592 You never knew them do that?—Not in recent years, no

4593 (S<sup>r</sup> James Begbie) Has that intention of the Government been intimated to the Presidency banks, that they will leave the money if the banks will pay interest upon it?—Yes, I think they know it

4594 (M<sup>r</sup> Gillan) You were speaking yesterday about the Government of India advising the Secretary of State as to the flotation of loans at home. The fact remains, does it not, that generally these loans are floated at a period of the year when it will be very difficult to forecast what is going to happen, or to give the Secretary of State any advice on the point?—Yes, quite so. When the loans are floated in January or February there would be no use in giving the Secretary of State any advice

4595 Or even when he borrows in April or May?—As I mentioned yesterday, when it comes to a question of borrowing, after the close of the financial year the actual state of the cash balance, as compared with the Budget estimate, will help to some extent at least in deciding whether it is necessary to raise a loan, or the full amount of the loan budgeted for, in an unfavourable market

4596 I understand that, but even supposing your opening balance has turned out to be better than was put down in the Budget, would it be very safe at that early period of the financial year to base your action entirely on the increase in your opening balance without reference to the possible outcome of the monsoon, for instance?—Of course, if there is anything wrong with the monsoon the result will probably be the issue of a much larger loan, but in a case of that sort the India Office may prefer to have recourse to temporary loans

4597 Then I think the Chairman in the same connection put to you a question about the possibility of increasing the loan raised in India in the course of the year?—Yes

4598 During the year?—Yes

4599 One point I wish to put to you in that connection is this. Is it not the case that when the Indian loan has been announced in the Budget the Presidency banks and all the people concerned make their arrangements on that basis?—Yes, that is so

4600 With a view to that particular sum being raised about July or August?—Quite so

4601 The Government of India have generally considered that it would not be very convenient to the banks or to others to make a sudden change in the amount announced?—Yes, that is so, in fact, it would affect the rate

4602 And they probably would not make any change unless in view of some very special necessity?—Quite so, that is true

4603 (S<sup>r</sup> Shapurji Broacha) May I ask one question? The Secretary of State could not refuse from April to December to sell bills at a lower rate than 1s 4d. He has to spend money. I suppose the Secretary of State has to spend half the amount allotted to him between April and December or April and November?—It may be even more than half

4604 So that if he does not sell bills at the market rate, and at a time when the banks could not make provision for their export season, I think he has to sell because of necessary expenditure here at less than 1s 4d?—Not always necessarily, because he has got some reserve under his control upon which he can fall back if the exchange is really unfavourable

4605 By "unfavourable" I do not mean below the gold point, I mean if it is still at the gold point, and the gold point is not 1s 4d, it may be some times 1s 3½d, or it may be sometimes 1s 3¼d, and so on?—Yes

4606 So the Secretary of State, in order to provide for his requirements, has to sell between April and December, or October or November, what he requires?—Quite so

4607 And supposing he sticks out for 1s 4½ or 1s 4¼, or even 1s 4d, and the monsoon does not turn out well, he may be left in the lurch?—Quite so

4608 So as business people you have to provide as you go on?—Yes

4609 And the Secretary of State is not wrong in selling for his requirements now at 1s 3¾d or 1s 3½d?—No

4610 So those who criticise the Secretary of State's action do not take into consideration his requirements?—Criticise in what respect?

4611 Have you read M<sup>r</sup> Webb's book? He lays down laws?—I know

4612 It would not be so if the Secretary of State were allowed to draw in anticipation of one year's requirements, then he could wait?—Yes, quite so

4613 If he fails in getting his rate he has still money in hand?—Yes

4614 You said that the Secretary of State did not want to lend in India because it would interfere with his exchange operations?—Quite so

4615 Of course, I need not ask you the Secretary of State was wrong in that one thing, the banks bring out money in India immediately to pay for their export bills, and it would make no difference whether the money is at 2 per cent or 6 per cent in India except for a very small amount, but, of course, that is a matter for discussion?—Yes

4616 (L<sup>o</sup>d Kilbracken) I think you said that the India Office was supplied with financial statistics from time to time by the Government of India as the financial year went on, but that the India Office did not invite and did not receive the comments of the Government of India on those statistics?—What I exactly said was that the India Office never asked for any comments

4617 And did not you say or imply that they were not volunteered by the Government of India?—Exactly so, quite

4618 You expressed the opinion that it would be advantageous if such comments were asked for and supplied?—Quite so

4619 But I suppose we may assume that if the Government of India thought it advisable to comment on those statistics it would do so without hesitation, and would not wait to be invited?—The point is that it is well understood that so far as the loan operations in England go the Secretary of State is the final authority, and no advice on the part of the Government of India is required

4620 What do you mean by "is required"?—is invited?—Yes, that is so

4621 You mean it is not asked for?—Quite so

4622 But you do not mean that it is not required in the sense of not being advantageous?—It is a matter wholly for the decision of the Secretary of State. The Secretary of State has never asked the Government of India for any advice in the matter, and the Government of India naturally has not considered it proper to give him advice of its own motion

4623 I should have thought if the Government of India had an opinion they would volunteer it. I take it you are referring exclusively to official correspondence?—Yes, that is so

4624 You are aware, no doubt that there is a very full and free exchange of opinion and of views between the India Office and the Government of India by means of private and semi private letters and telegrams?—Yes, quite so

4625 Do you think that as a matter of fact the India Office is not at any given moment fully informed as to the views of the Government of India on the financial situation from week to week?—No, I do not think there is any such definite practice

4626 You do not think that they are informed?—My impression is that the India Office are not actually informed about the financial position from week to week

4627 You think that they are not sufficiently informed by means of official correspondence, with the addition of the private and semi private correspondence which is, as we all know, always going on?—No, I do not think any advice or any definite information is furnished regularly from week to week by means of this private correspondence

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[Continued

4628 You are not aware of it, at any rate?—  
Quite so

4629 You said also that the Secretary of State does not take the initiative in questions of taxation. You mean that he does not do it in an official despatch or telegram?—Quite so

4630 But, as the Secretary of State is in constant correspondence privately with the Government of India is it not impossible to say, as regards any given proposal, whether it really originated in this country or in India?—Quite so. Of course, it would be impossible for me to say whether it is usual for the Secretary of State to write privately to the Viceroy asking him to consider a particular proposal.

4631 (Chairman) I want to know now about the paper currency system and reserves. In the first place, as regards the paper currency system, is it rather a rigid system at present, is it not?—Yes, it is

4632 Do you think it would be desirable at this stage to make it more elastic?—I think an experiment might very well be tried

4633 Do you think it would be safe now to increase the fiduciary portion of the issues?—Yes, that could be done now without any inconvenience

4634 Is there any figure in your mind by which you would think it safe to increase the fiduciary portion?—No, I have not got any particular figure in my mind

4635 I mean the percentage of the whole?—I do not think there would be any difficulty if we kept about one third of the net circulation in securities

4636 What would you say to the suggestion that a part of that fiduciary portion of the reserve, instead of being placed in what we ordinarily mean by securities, should be used for assistance to trade?—I think that could very well be done. In fact, that was what I was coming to yesterday, viz., that, instead of making any regular arrangement of lending money to banks at times of stringency, we might have a more elastic paper currency

4637 I think you did speak yesterday, and again to day, of giving assistance to trade, if assistance was to be given, from paper currency rather than from the balances?—Yes

4638 Was that what you had in your mind when you so spoke?—Quite so

4639 As regards the Gold Standard Reserve, am I correct in saying that that exists solely for the support of exchange, or has it other objects?—That is its main function. It has also been held that, apart from its function of supporting exchange in times of difficulty, there is the other function of supplying rupees in exchange for gold when there is an abnormal demand for rupees

4640 You regard it as part of the object of the Gold Standard Reserve to supply, not gold to India, but rupees to India?—Yes, in times of stringency, quite so

4641 Would not that rather be the part played by the Currency Reserve?—Yes, that is the part which the Currency Reserve ordinarily plays, but in time of stringency, when the Currency Reserve may fail to satisfy the purpose, it is necessary to have some sort of special reserve, and it has always been held that it is the function of the Gold Standard Reserve to supply that special reserve

4642 How does the Gold Standard Reserve supply that need?—We have what we call the rupee portion of the reserves in India, where we hold about four millions sterling, and in times of abnormal demand for rupees we have indented upon this reserve

4643 Then the rupee portion of the Gold Standard Reserve which is kept in India exists merely for that purpose?—Quite so

4644 I think that is a departure from the recommendations of the Fowler Committee?—Yes

4645 In their recommendations it was contemplated that the Gold Standard Reserve should have no object except to maintain the exchange?—Yes, but then I think it follows as a consequence of that recommendation, that if there is a shortage of rupees in India the result will be that exchange cannot be maintained at the standard particular rate.

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4646 What would happen if there was a shortage of rupees in India?—Rupees would be at a premium above the standard rate

4647 So that in those cases you are using the Gold Standard Reserve not to maintain the exchange value of the rupee, but to prevent it from rising too high?—That is so

4648 (Mr. Keynes) May I interrupt? If there was a shortage of rupees would it not be necessary for the Government to withdraw their notification? At present there is a notification that rupees can be obtained in exchange for sovereigns?—Yes

4649 If the Government had no more rupees left they would have to withdraw that notification, would they not?—Quite so, but then that would lead to a dislocation of trade and a large amount of trouble

4650 I mean no premium could result unless that notification had been withdrawn?—That is quite true, but in the Mofussil if there is a shortage of rupees the result will be that there will be a premium on the rupees in circulation

4651 (Chairman) Have you known any cases where there has been a premium on the rupee?—I have known of cases where there has been very great difficulty owing to trade not getting the proper amount of rupees that it required, in fact, that is exactly what led to the establishment of this special holding of rupees in the Gold Standard Reserve

4652 Assuming that a portion of the Gold Standard Reserve is to be devoted to that purpose, it follows, I think, that it must be kept in silver?—Yes, that is so

4653 And that the proper place for that portion of it is in India?—Yes

4654 Do you consider that the proper place for the rest of it is in London?—Yes, I do

4655 Will you tell me very briefly why you say that the proper place is London?—Because the function of the gold portion is to prevent exchange from falling materially below the standard rate of 16d. Now if exchange falls below that rate, the main difficulty is that the Secretary of State will not be able to meet his sterling obligations. For that purpose it is essential that this reserve should be at a place where it could be readily available to him to meet these obligations

4656 (Sir Robert Chalmers) Not only his obligations, but also to maintain parity for trade in general?—That is so. In fact we maintain that by selling bills in India on London in exchange for rupees

4657 And that might be regarded by some as even more important than the transactions of the Secretary of State?—That would undoubtedly be more important from the point of view of trade itself.

4658 And India generally?—Yes

4659 (Chairman) I think it has been suggested to us by some witness that one purpose of the Gold Standard Reserve is to supply gold to India. Do you agree with that?—Of course, at times of stringency the supply of gold in India itself also helps to maintain parity of exchange. If, for example, we have got a portion of the reserve in India and rupees are getting redundant, so far as the standard rate of exchange is concerned, then if we issue the gold freely the result is that it partly helps to raise the balance of trade in favour of India, because the gold so issued may either be exported from the country or it may tend to reduce the import of gold into the country, so that in either way it helps to raise the balance of trade in favour of India and it thus helps to improve or steady the rate of exchange. But then I think that this function of supplying gold in exchange for rupees or notes should be performed by the gold in the Currency Reserve so long as we have a large amount of gold in that reserve in India.

4660 Do you say that experience shows that gold issued to India in times of exchange difficulty does support the exchange?—I have an impression that it does so, that seems also to be the natural consequence.

4661 Take the case of 1907-8. I think about four and a half millions additional gold were issued, if I remember rightly, from the treasuries?—That is

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Possible The crisis extended over portions of two financial years. My recollection is that in one of these years two millions were issued. Probably the remaining  $2\frac{1}{2}$  millions were issued in the other year.

4662 I think I am right in saying four and a half millions, I think there was evidence that only about a quarter of a million of that was exported?—Is that so? I had an idea that about two millions were exported, but I am not sure.

4663 This evidence was in a memorandum submitted to us by Mr. Abrahams, the statement relates to the events of 1907-8. It will be seen that the "sovereigns held in Government treasuries in reserve in India decreased between September 1907 and September 1908 by 4,394,000l of which 215,000l represented light coin sent by the Government of India to the Secretary of State and the remainder, "4,179,000l, issues to the public in India. The export "on private account during the same period amounted to just about 250,000l" (see paragraph 9d (b) of Appendix III, page 90). It would seem from that, as far as one can lean upon that experience, that gold in circulation in India or issued in India does not go to the support of exchange?—But then, even if the gold is absorbed it will reduce the demand for import of gold into the country, and in that way it would support exchange.

4664 Have you any view to express on the question of the opening of a mint in India?—I think myself that we ought to have a gold mint.

4665 Will you tell me why?—The main reason is that we ought to have some means of coining a gold coin in India.

4666 I must ask you why again?—Because I think that, for the time being, it would help us in the maintenance of the gold exchange standard to have a larger circulation of gold in India, and though it is true that we get our requirements by the import of sovereigns into the country, a gold mint in India would indicate to the public at large that Government was certainly earnest in its endeavour to foster gold circulation in the country. It would also attract to the mint the amount of gold produced in the country itself, and this amount would be turned into sovereigns there.

4667 Let me ask you first about the gold produced in the country. I think some years ago—I have not the exact year in my mind—the Government of India withdrew its proposal for the opening of a mint at that moment because they found that all the gold produced in the Indian mines was under contract of sale to London. Do you know whether that condition of things no longer exists?—No, I could not say anything definite on the point, but it seems to me that, once we open the mint, the contract is bound to be terminated, and we will get that gold in our mints.

4668 Is that necessarily so? I presume that the mines have heavy remittances to make to London, their shareholders are in London. May it not pay them to remit their gold direct to London and tender it here?—It may be so. But they could arrange for these remittances easily by tendering the gold in India and getting payment against it in England through banks.

4669 Would you propose to charge any seigniorage on gold coinage?—No, nothing. Of course, we should have to charge something for refining the gold, but nothing in the way of seigniorage.

4670 Is there any refinery in India now?—No, I do not think there is one.

4671 Do you think, apart from the gold produced in mines, much gold would be brought out of hoards in consequence of the opening of a mint?—It may not be immediately, but it is possible that at times of stringency during periods of famine, after the country has been saturated with gold, gold ornaments will come out from hoards and be sent to the mint for coinage.

4672 Is gold taking the place of silver in hoards, whether in actual bullion or ornaments?—There is no definite information on the point, but I think there are some indications pointing to the fact that gold is gradually displacing silver in circulation, and also, naturally, in hoards.

4673 In your opinion it is desirable to encourage that?—Yes, I think so, at least, at the present moment.

4674 Notes are playing a very large part in the circulation of India at the present time, are they not?—Yes.

4675 And an increasingly large part?—Yes.

4676 Do you not think that there is a good deal to be said for notes as the most convenient and cheapest form of currency?—Undoubtedly notes are better in this respect than an actual gold coin.

4677 Is that not a little in conflict with what you were saying just now, that you wanted to increase the amount of gold coin in circulation?—The point is this: India is still an undeveloped country. It is natural that a great portion of the masses should prefer metallic currency in place of paper currency, there fore, for the time being, it would be advantageous to have an actual gold currency in circulation to displace the silver currency, but later on, as the country develops, the note circulation will probably increase and displace the gold currency.

4678 As an ideal, then, you look forward to the supersession of metallic currency by notes as far as possible?—Quite so.

4679 But in the meantime you would prefer to see gold taking the place of a portion of the silver?—Quite so, because, in fact, such a substitution would reduce our currency difficulties. The less the amount of rupees we have in circulation, the smaller would be our liability at times of crisis when we may be called upon to support exchange.

4680 I want to know how exactly, in your opinion, the amount of rupees in circulation, provided they are not in excess of the demand for currency, affects exchange, or your difficulties in regard to exchange?—What happens is this: The amount of rupees in actual circulation at any time must be equal to the demand for the rupees themselves, but at times there may not be a demand for the total volume of rupees which has found its way into the hands of the public, exactly as happened in 1908, and some portion of the rupees are returned to our currency offices, and either gold is taken in exchange or these rupees are, so to say, sent out of the country by being put into our currency offices, and gold in London taken against the rupee payments in India. Now if we had a larger circulation of gold and a smaller circulation of rupees our difficulty at that stage would be considerably reduced, because then, in a crisis of that sort, the gold itself would go out of the country, or, on the other hand, there would be a smaller import of gold into the country for hoarding, arts and manufactures.

4681 If you had a large amount of gold in reserve would not that serve exactly the same purpose?—Yes, but the point is this: We will have to go on gradually increasing this reserve, because, as there is an increased demand for metallic currency we shall have to issue more rupees, we shall have to coin more rupees and issue them, and we shall have to increase the gold reserve to meet our liability in respect of these additional rupees. On the other hand, if we can reduce the demand on us for rupees and can meet it by an increased circulation of gold, of course the whole machinery will go on automatically.

4682 Supposing as long as trade is expanding, and the prosperity of India is increasing, the demand for rupees goes on increasing and then comes a check, you do not suggest that the whole of the new rupees which have been put out in the course of the prosperous years would come back to the Treasury, do you?—No, not the whole of them necessarily, but probably a good portion. In fact, there will be a repetition of what actually happened in 1908.

4683 But even in 1908 a very small proportion of the issues which had been made came back?—That is so, but then the risk would be increased if we went on adding to the volume of the rupee currency.

4684 Do you think it has increased in proportion to the increase of the currency?—No it cannot be quite proportionate but still there would be some increase in the risk.



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4685 I suggest to you that as against those contingencies you must keep a gold reserve, and with that I think you agree?—Yes, that is so

4686 I should say you must have gold in the first instance, and you must have that gold either in circulation or in the reserve or probably in both. But I would suggest to you that it is more economical and quite as useful to keep it in the reserve as to keep it in circulation?—Yes that is so. But then, on the other hand, if we do that and go on adding to the rupee currency, it means that we increase our liability to convert the rupees into gold when the necessity for doing so arises. We can certainly meet that liability by keeping a large amount of gold in reserve, but, instead of taking all that responsibility on Government, I think the other plan of having a large amount of gold in circulation and making gold displace rupees would make the system more automatic, and reduce the responsibility of Government in the matter.

4687 Are you treating it as being in practice obligatory upon the Government of India to give gold for rupees whenever asked?—It is practically obligatory. Of course, in theory there is no obligation, but at the time of the last crisis I think the Government of India found that it was desirable to give out gold in exchange for rupees so long as it had got gold, and I think it is necessary to do so at times of panic so as to avoid creating any suspicion in the minds of the people about the currency policy of Government.

4688 Would you think, therefore, that the time had come for the Government of India to undertake an actual legal obligation to give gold for rupees?—I do not think it is necessary to go so far at present.

4689 (*Lord Faber*) There is one question I should like to ask you. It is your opinion, I think, from what you have said, that India is using world's money when she uses gold in her circulation—money available for all purposes, but, when rupees are used, India is not using world's money. Do you agree with that?—Quite so.

4690 (*Chairman*) What is the use of the gold in the Paper Currency Reserve in India?—Its main function is to supply gold to the public whenever they may demand it, that is to my mind its primary function. Of course, it is used for other purposes; a portion of it is nowadays held in England as a reserve from which the Secretary of State can purchase silver expeditiously at an emergency, or from which he can finance the home Treasury if there is any prolonged falling-off in the demand for Council bills at the specie point rate.

4691 It follows, I think, from what you said that you hold rupees in the Gold Standard Reserve in order to supply the public in India with rupees when they want them, and you hold gold in the Paper Currency Reserve in order to supply them with gold when they want it?—Not quite, because we have rupees in the Paper Currency Reserve which we issue to the public when they want rupees. The rupees in the Gold Standard Reserve constitute a second line of defence. They are a margin. In fact, the inflow and outflow of rupees to and from the Currency Reserve is more or less automatic, and it may happen, as it actually happened in the past, that at times of extreme stringency the rupees in the Currency Reserve may prove insufficient. Then we have a second line of defence, and we can make use of it.

4692 Have you ever considered whether it would be under those circumstances desirable to amalgamate the two reserves?—That would destroy the character of the special reserve. For, if we amalgamated the two reserves and kept the total sum in the Currency Reserve, it would be liable to fluctuations with reference to the ordinary exchange operations of the Currency Department, and it may so happen that at times the bulk of the rupees may be taken away, and there may not be a sufficient stock left to meet immediate demands. But if we keep a certain amount of rupees in a special reserve, then as soon as the rupees in the currency are more or less exhausted, and we start drawing on the silver in the gold reserve, it is an automatic indication

to the Government that it must coin rupees expeditiously.

4693 You mean that if they were working with only one reserve the facts which were passing under their eyes might escape their notice?—It is possible.

4694 But the fact that they have to go to the gold reserve for rupees is an alarm-signal?—Quite so; it is an automatic alarm-signal.

4695 Given the use, as you have explained it, of those two reserves, do you see any other reason than that for keeping them separate?—No, there is no other that I know of.

4696 Do you see any advantage in putting them together if it could be done?—Apart from the objection based on the advantage of having a special rupee reserve, I do not see any other objections to keeping them together.

4697 As regards the Gold Standard Reserve in London, a portion of it is in gold and a portion of it in securities. Have you any views as to the amount which ought to be kept in gold?—I think that a fairly large amount ought to be kept in gold. I believe the Secretary of State has recently agreed to hold five millions in liquid gold. Possibly that is a sufficient sum to start with, but my personal opinion is that it would be better to have a higher amount.

4698 Would you indicate any total for the Gold Standard Reserve as a whole or for the gold portion of it in particular?—As regards the Gold Standard Reserve as a whole, I think we ought to keep not less than 25 millions. When we have reached that limit of 25 millions, we might then review the whole position, and might consider whether a portion of the coinage profits might not be diverted for some other purpose. But until we had reached that point of 25 millions, which I think was clearly indicated as a necessary reserve by the experience of 1908, I do not think we ought to touch the further accumulations in the gold portion of the reserve.

4699 Do you mean to keep the whole 25 millions in actual gold?—No, that figure I mean to be the total amount of the reserve.

4700 As regards the actual gold, you think five millions hardly sufficient?—Hardly, I think. Probably 15 millions would be a suitable sum. I think during the last crisis we lost something like 18 millions, and we were lucky that the crisis did not synchronise with a very great stringency in the English money market itself, and a large fall in the price of sterling securities. If that had been so we should have been obliged to sell our sterling securities at a very great loss.

4701 Do you think it is fair to take what happened in 1907-8 as a measure of, shall I say, the greatest danger against which you can reasonably be called upon to provide?—That is the only experience that we have got to guide us, and for the time being I think we must depend upon it. We may have to alter our views on the subject when we are confronted with another crisis.

4702 It was put to us the other day by a witness, and I think you have just indicated that you agree, that it would have been far more serious in 1907-8 if what that witness called the storm centre had been in London instead of in New York?—I certainly agree with that view.

4703 Again, there was famine in India in 1907?—Yes, that is so.

4704. Was it a bad famine?—It was not a very bad famine.

4705 You could easily conceive of a worse famine?—Quite so.

4706 I think there was no war that year?—No.

4707 You might have circumstances, therefore, much more unfavourable to India than they were in 1907-8?—It is quite conceivable that it may be so.

4708 That would seem to imply that you should provide for something more than what was actually proved to be required in those years?—That is so.

4709 Have you ever had occasion to consider whether the Gold Standard Reserve should be brought under statutory regulation?—My personal opinion is

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that at the present moment at any rate it is better not to bring this reserve under statutory regulations

4710 I think on one occasion, and on one occasion only, money has been diverted from the Gold Standard Reserve for expenditure in India?—Quite so

4711 The Government of India I think did not approve of it?—That is so

4712 And it has not been done since?—No

4713 Do you wish to say anything on the question of a State or central bank for India?—No, I do not want to offer any opinion on the point unless any particular question is asked me

4714 There is one other question I want to put to you It refers to the coinage of gold in India Supposing that were to be decided upon, have you any view as to what the coinage should be?—I certainly think the coinage should be the sovereign, the coin of international trade If that is impracticable, then, of course, as a last resort I would fall back on a special coin for India

4715 You are aware that if you want to coin a sovereign you have to have a special mint under the supervision of the British authorities?—Yes

4716 And that it is a rather expensive proposal, therefore?—I would, nevertheless, go to the length of incurring that expenditure

4717 (Sir Robert Chalmers) As regards the tendering of gold at the assumed mint in India, that would turn to a very great extent on price, would it not?—Yes

4718 As to whether it were cheaper and as to whether it fitted in with the arrangements of the mine-owners, with agents, as regards commission, and so forth, there would be all those questions?—Yes, quite so

4719 But ultimately it would turn on price?—Yes

4720 Taking price a little further into detail, if, following the Australian precedent, there were a mint change in India, that would militate, through the price, against the arrival of gold at the Indian mint as compared with its coming to London, which is a free mint?—Quite so

4721 (Sir Ernest Cable) I think it would assist the Commission, in considering the question of increasing the elasticity of the note issue, if you could tell us how these notes are issued Are they issued in large parcels to Mahájans and local bankers or do the people themselves come and take the notes in small quantities? Do you happen to know what the habits of the people are in that respect?—From the currency offices?

4722 Yes?—The issues are mostly in large parcels, and the paper currency which filters to the Mofussil mainly finds its way there through the banks

4723 So that they are issued through the banks, really, and the native Mahájans, and so forth?—Yes

4724 (Mr Keynes) Are there currency chests at all district treasuries?—There are currency chests at most of the surplus ones, I may say at all the surplus ones The treasuries may be divided into three main classes There are the deficit ones, *i e*, those which do not collect enough revenue to pay the charges at that particular treasury, there are some which just sufficiently pay their way, and there are the surplus ones There are currency chests at all the surplus treasuries, there are also currency chests at most of the deficit treasuries, particularly those which are located in out-of-the-way places, where it would be difficult to send remittances regularly month after month, and it is a convenient arrangement to send a big remittance at a certain period of the year, to keep the money in the currency chest, and to issue portions of it to the Treasury from time to time to meet requirements

4725 Is that also true of sub-treasuries?—No, as regards sub-treasuries it is unusual to have currency chests

4726 When a branch of a Presidency bank takes over some part of the work of a district treasury I suppose the currency chest remains untouched?—The Bank of Bengal usually maintains currency chests for Government at these places, but the Bank of Bombay has never undertaken this obligation, and at all the places where we have a branch of the Bank of Bombay

doing Government Treasury work the Government maintains a separate currency chest

4727 When the bank maintains the currency chest does that simply mean it keeps it in its vaults, or does it mean more than that?—That is all it does

4728 It merely safeguards the rupees?—Yes

4729 It takes over no other function?—No

4730 It does not actually issue notes against rupees?—No

4731 It is merely the safeguarding of the rupees that it undertakes?—Yes

4732 I understand that the Government economises over remittances to a very great extent by using the currency chests instead of sending balances backwards and forwards?—That is so

4733 It releases money out of one currency chest and puts it into another?—Yes

4734 When a Presidency bank takes over the Government balances are the facilities of the currency chests allowed to the Presidency bank?—I do not quite understand the question

4735 I mean can a Presidency branch bank, in a place where there is a currency chest, cash notes out of its currency chest as freely as the Government would, and so remit by those means?—The ordinary currency chest does not actually cash notes It the branch bank at such a place wants more coin it applies to the Accountant General of the particular province and he may or may not give the bank more coin from the currency chest But the usual practice is that a branch bank is allowed to take over the coin in the currency chest at such a place on payment of a certain amount of premium—it is usually a small premium—to the Accountant General

4736 So that the branch bank which takes over the Government balances has not quite the same facilities of remittance as Government had, because it has not full control over the currency chest?—So far as the Government balances go, the facility is the same If there is any surplus, the Accountant General will ask the Presidency bank to make a transfer from the Government balance at its branch to the currency chest Then again, if the Accountant General finds that the Government balance at the branch bank is running short he will at once order a transfer from the currency chest to the Government account at the branch bank Of course, the Presidency bank does not get the same facility so far as its private balance is concerned, but the Accountant General always gives it the first choice of the accumulations in the currency chest at such places, charging it with a small premium He also usually hands over to it the entire surplus Government balance free of charge, if it makes an opposite payment at some other bank or at its head office

4737 About how much is the premium?—It varies between  $\frac{1}{10}$  and  $\frac{1}{2}$  per cent

4738 If there were to be some system of a Central bank managing the note issue I suppose it might possibly be profitable for that bank to have branches where it is not now profitable, for this reason, that they would be able to use the currency system for remittances to the same full extent as the Government now use it?—Quite so If it is practicable to have a State bank which will relieve Government of all its responsibilities as regards currency and banking, that sort of thing would be possible

4739 I mean at present there is only a very partial economy effected when the branch bank takes over the Government balances, because there is a great deal of semi banking work which still remains in Government hands?—Not exactly The currency work certainly remains in the hands of Government, but not semi-banking work

4740 No, the currency work remains in the hands of the Government?—Yes

4741 Can you explain as fully as possible the extra legal facilities which are given for the encashment of notes? I understand the public can actually demand encashment at the place of issue or at the Presidency town office, but that you give other facilities outside the law when it is convenient Can you outline the nature of those facilities?—What happens is

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this At the District Treasuries facilities are given for the encashment of currency notes so long as there is sufficient coin in the Treasury available for the purpose. Apart from this arrangement we have at certain important centres what is called a Currency Agency. We have one at Allahabad, we have several in the Punjab, we have one I think at Mandalay, and I believe we are about to open one at Delhi. These Currency Agencies issue notes, which usually are given a distinctive mark, for circulation among the public against a deposit of coin in that particular agency. The notes which are thus issued from the agency are freely encashed at that agency, other notes being also encashed so far as it is found possible to do so without any inconvenience. That is the other extra-legal facility.

4742 In practice are they nearly always able to do that or not?—I should say that the facility given is a substantial one. They are often able to cash the notes at the more important treasuries.

4743 I mean is it your impression that the public can place reasonable reliance on being able to cash them or not?—Yes, at almost all the important treasuries they can, I think, rely on getting a currency note cashed at the Treasury.

4744 Are currency notes ever cashed for the convenience of the public at sub-treasuries?—No. The nature of sub-treasuries is different. They are mostly collecting centres where the revenue is collected. A sub-treasury does not make any payment of its own motion. If the district treasury issues a sort of cheque on it to make a payment in any particular case it makes the payment from the revenue collected by it, but no cash is ever sent to a sub-treasury to meet any particular payments, and a sub-treasury cannot cash currency notes.

4745 But I suppose a sub-treasury has rupees in its chest which have got there from taxation?—Yes.

4746 Is there any reason why, when those rupees are in excess of its probable outgoings, it should not use them to cash notes?—We would have to maintain a large establishment at the sub-treasury. We would practically have to convert the sub-treasury into a regular treasury.

4747 There is no other objection?—No, none.

4748 If that were done it would mean that there would be some sort of facility for encashment of notes at 1,500 places instead of 300?—Yes.

4749 Has it ever been considered whether that is practicable?—It has never been considered, for the reason that the sub-treasury is always looked upon as a centre for the collection of revenue. It has no other function, practically.

4750 Can you explain to me as to what sort of extra-legal facilities are given for the supply of gold?—There, again, it is the same thing. So long as a treasury has got a supply of gold it issues it freely to anybody who may want the gold. When there is a large supply of gold at the currency offices, the Comptroller-General and the Accountants-General usually keep the various treasuries where gold is in regular demand properly supplied with gold.

4751 They do send gold on purpose in order that it may be available in order to give the public extra-legal facilities?—Quite so, so long as they have a large stock of gold.

4752 Do they send rupees for the same purpose?—Yes they have to.

4753 I mean they do not merely give the public extra-legal facilities when the stock of rupees has got very high, they do send rupees on purpose in order to give them extra-legal facilities?—The Government tries its best to meet the public demand for rupees, and it often concentrates rupees from various places where there is not any large demand for them to places where there is a large demand, but in such cases what usually happens is this. The banks or the big firms get hold of these rupees by the purchase of supply bills or transfers by paying a small premium to the Accountant-General.

4754 Were the extra-legal facilities for gold given with a view to getting more gold into circulation?—

Yes. That is so. When we have got a large amount of gold in our hands we try to give special facilities to get it into circulation.

4755 You deliberately send gold to places where you think it may be wanted in order that more gold may get into circulation?—Yes, that is so.

4756 (Mr Gladstone) You referred to the treasuries numbering 1,500. As a whole could you give us any idea of the proportion of the Government balances in those 1,500 treasuries as against the 300 district treasuries?—I am afraid I could not give you any.

4757 Roughly?—No, I could not.

4758 Would it be half?—I could not say.

4759 Perhaps you could get it?—Yes.

4760 (Chairman) Will you be able to get the information here?—No. In fact, I tried to get it here and failed. But if the information is wanted, I could certainly telegraph to India and get the information, I could get it, say, for one particular province.\*

4760a (Mr Gullan) But it must vary very much at different times of the year?—It must vary enormously.

4761 (Mr Gladstone) I mean an approximate proportion. This very convenient system of the currency chest which exists at the district treasuries does not apply to sub-treasuries, and the object of my question was to see whether that might not be extended?—Of course, the arrangement is that as soon as any large sum accumulates at a sub-treasury it is immediately withdrawn to the district treasury, and, except in months when a large amount of land revenue is collected, January, February, and March, very little actually remains in the sub-treasuries.

(Mr Gullan) I may say that these are little places twenty miles away from headquarters, and money is being brought in regularly once a week or so. It is not retained there.

4762 (Sir Shapurji Broacha) I suppose Government tried to do its very best to push gold into circulation between 1900 and 1907?—Yes, they made an effort.

4763 Until the gold circulation or the gold sovereign went down to a discount at one time?—I have no information on that point.

4764 Government tried its best to put gold into circulation for seven years until the exchange crisis came?—Yes.

4765 I suppose it was an experiment to see how far the pushing of gold would help exchange during a time of crisis, but the crisis was not helped by gold coming out, is that so? After forcing gold into circulation among people for seven years until gold went to a discount, the crisis came, and gold did not come out to help exchange?—As I said, my view is—

4766 No, it did not come out?—Quite so.

4767 Instead of coming out, a further four millions were absorbed?—Yes.

4768 And you say that the four millions might have helped in not bringing out more gold from England or from outside?—Quite so.

4769 Are you sure that that is the only cause, or was it because gold had appreciated, and they wanted more to put into hoards in place of rupees? It only displaces the rupees, nothing else?—I am afraid there is no definite information about that.

4770 So that experience does not give any encouragement that pushing gold into circulation will help exchange?—Does it naturally follow? Even assuming your view is admitted to be correct, when the country is saturated with gold, then the gold in the hands of the people is bound to help Government in an exchange difficulty.

4771 Do you know that the country was then saturated with gold, that there was 300 millions in all imported—accumulated gold—and although the Government did its best to push the circulation for seven years, yet none of that accumulated gold came out, so it does not support your theory that if more gold is pushed into the country it will help Government in the day of its distress?—I am not sure if that is true. You say that gold displaced silver in hoards.

\* The figures are being obtained from India, and will be printed as an appendix to the Final Report.

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[Continued]

Supposing we reach a point when there is no more silver in the hoards to be displaced. When that state of saturation is reached, the gold in the hands of the people is bound to help Government in times of exchange difficulties.

4772 How could you arrive at a day when there are no more rupees? At present there are more rupees in the country than gold?—That is so, and for that reason I say—

4773 You say that if you push currency gold into circulation now it will be a help in the future?—Yes

4774 Supposing the Government were to give as much gold as was wanted, and supposing a time like 1907 came, and the Government stopped issuing, would that not create more want of confidence than to say to them before, "We will not give you all that you want"?—When the stage I am referring to is reached, Government will not have to tell them that it will not give them gold.

4775 Government has to say, "We have no gold," just as they had to say in 1907. You stopped then for three years, do you not remember that?—That was because we had no gold.

4776 Does not that fact create more want of confidence, by refusing to give them gold when they want it, than it would to tell them before, "We will not give you the gold that you want"?—The point is this. We are now going on accumulating a large amount of gold, and, if we supplement that by trying to substitute gold currency for silver currency among the people, the result will be that, when a second crisis comes, there will be in the first place a smaller amount of rupees which will come out from the hoards.

4777 That is your conjecture of what would happen, but it does not seem reasonable from the past, at least, the past has not given any encouragement to go upon?—We have had experience of only one single occasion, and then certainly the gold circulation among the people had not made any large progress, nor had we any large gold reserves in our hands.

4778 I say what has happened in the past does not encourage forcing gold upon people?—I do not see any reason why that should discourage us.

4779 Because the people did not bring their gold out?—That is because the country was not saturated with gold, that is my point.

4780 Did I not say that there is more gold in the country than you will receive for the next 10 or 20 years? India, as they say, is the sink of gold?—That is so, but what is happening is—

4781 You cannot say that there is any encouragement for the pushing of your policy. You must ground your views on the past. The future is conjectural?—My point is this, that we have not sufficient opportunity for judging whether the country would have helped us if it were properly saturated with gold.

4782 That is your conjecture. Now let me deal with what you said about a mint. Is it a necessity or a sentiment?—I consider it mostly a necessity.

4783 Do you know that South Africa is the home of gold production?—Yes.

4784 There is no mint?—I do not know. Possibly the development of currency ideas in South Africa is higher than it is in India.

4785 How is there any dissimilarity? They want gold in circulation. They have the same sentiment as the people of India about gold?—The difference is that in our country there is not quite the same confidence in a paper currency among the people as there is in other countries.

4786 Suppose that a mint were granted in recognition of sentiment—of course you say it is a necessity—what gold would you bring to the mint? There is, as you say, the Mysore mine gold?—Yes.

4787 Do you know that two thirds of that gold comes to England, whether you buy or do not buy gold in India? They want it for their profits here?—That I did not know.

4788 If you bring one third of that gold to your mint, that is, three quarters of a million one third less will come from foreign countries to satisfy the

requirements of the trade, so that India does not gain much in gold?—I do not know much about the circumstances of those mines.

4789 I think you are mistaken in saying that there is no gold refinery, there is a gold refinery?—I doubt it.

4790 The mint refines gold if you want it and gives you a certificate which is accepted by the Bank of England?—I think they assay it, but I do not think they refine it, that is my recollection.

4791 They assay it. Of course, you are for sovereigns, whatever may be the larger cost?—Yes.

4792 To keep up the same coin in the Empire?—Yes, quite so.

4793 I suppose if you use rupees from the Gold Standard Reserve in India you will have to earmark gold here for the currency if it is against exchange. You are drawn upon by the Secretary of State and you have no need to come upon the Treasury you borrow instead, that is to say, you give from the silver in the Gold Standard Reserve?—Yes.

4794 Then the Currency Reserve will have to be augmented to that extent in England by placing gold in the Currency Reserve which is here?—No, not the Currency Reserve, the Gold Standard Reserve.

4795 No, you are mistaken, if you say it is from the Gold Standard Reserve—you will have to pay gold earmarked here to the Currency Reserve?—You have to pay the gold from the Currency Reserve to the Gold Standard Reserve in England, and against that you pay the rupees from the Gold Standard Reserve into the Currency Reserve in India.

4796 Suppose no bills are drawn against you, or anything like that, and yet India wants the rupees, you have to borrow from the silver portion of the Gold Standard Reserve and replace that by gold from the Currency Reserve?—I do not quite understand.

4797 The Secretary of State does not draw from the Treasury, and yet rupees are wanted from the Currency Department?—Well?

4798 And you have no more rupees to give?—Well?

4799 You borrow from the silver portion of the Gold Standard Reserve and pay into the silver portion gold from the Paper Currency Reserve?—Quite so. We can make the payment in India, but we should probably prefer to do it in England, because on such an occasion the Secretary of State usually sells Council bills in excess of the requirements of the Home Treasury.

4800 How would you benefit by taking some of the Gold Standard Reserve from here to India? I suppose it is said that a portion of it may be kept there?—I do not think I said so. I said that a portion of the Gold Standard Reserve is kept in India.

4801 (Sir Robert Chalmers) You said the silver portion?—Yes, the whole of the silver portion must be in India. That is all I said.

4802 (Sir Shapurji Broacha) You said that the Secretary of State does not interfere with the advice given to him by the Government of India usually he weighs it and perhaps makes some suggestion?—Did I say that?

4803 You said that recommendations made by the Government of India are as a rule accepted by the Secretary of State with sometimes a suggestion that such and such a thing ought to be done, or something like that.

(Mr Gillan) In what connection?—Was it about taxation?

(Sir Shapurji Broacha) Yes, and other matters. (Witness) What I said was I think that the Government of India make recommendations to the Secretary of State, and the Secretary of State has full discretion to accept those recommendations or not to accept them or to place other suggestions before the Government of India.

4804 (Sir Shapurji Broacha) But you said that there are no cases where the Secretary of State has not accepted the recommendations of the Government of India?—I do not think I said that.

4805 Then I will leave it. I want to ask you one more question. If you want to make a gold currency,

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[Continued.]

then you will give gold to whatever extent is required ?  
—Yes

4806 Would you require a gold standard or gold currency ? I mean now, at the present time Would you like in India a gold standard or gold currency ?—We have the gold standard, and I want gold currency in addition I would prefer to have gold currency in addition

4807 Supposing the gold currency were given, it means that whatever gold is asked to be given must be given ?—Does that necessarily follow ? All you want is that anybody who takes his gold to the Mint will get back a sovereign in exchange

4808 No there is a difference between gold currency and a gold standard. With a gold standard you can refuse the gold, but with gold currency if you refuse to give a sovereign for 15 rupees you have failed to maintain your currency ?—If that is so, all I want for the present is the gold exchange standard plus an obligation on the part of the Government to coin into sovereigns any gold presented for the purpose at a Mint in India

4809 That is quite different If you introduce a gold currency it means that the Government put themselves under an obligation to give sovereigns for the number of rupees tendered That is a gold currency We are now on a gold standard and you wish to have a gold currency ?—No, if that is the meaning you attach to a gold currency I certainly do not want a gold currency in that sense at present

4810 (Sir James Begbie) With regard to the silver portion of the Gold Standard Reserve on one occasion some years ago the Secretary of State drew against that reserve which led to a protest by the Government of India Do you remember that ?—Yes

4811 We have that in the correspondence That process was repeated later on, in 1910 and 1911, I think ?—Yes

4812 Can you tell me under what circumstances the reserve was drawn upon at that time ?—On our side we have not got much to say about the transaction It was done expressly under the instructions of the Secretary of State If we had not taken the loan, the Secretary of State would have been obliged to transfer gold from his Treasury to the Paper Currency Reserve or to the Gold Standard Reserve

4813 That was in 1906 ?—Yes

4814 But in 1910 there was no gold at that time, was there ?—Yes

4815 Was not the reserve reduced altogether by Council bill sales ?—Yes, on that occasion upon which the silver portion of the reserve was reduced by an increase in the gold portion in England

4816 That is what I mean that part of the reserve was intended to supplement the reserve of the rupees in the Currency Department ?—Yes

4817 Was there any need to draw upon that special reserve in 1910 or 1911 to supplement the rupees in the Paper Currency ?—No, it was not wanted for that particular reason The point was that we had a large number of rupees in the Paper Currency Reserve, and at one stage I believe the Secretary of State thought that we might reduce the amount of rupees in the silver branch of the Gold Standard Reserve. So he inquired about half the balances of the silver reserve in gold securities in England Then there was some correspondence between the Government of India and the Secretary of State on the subject, and the silver branch of the reserve in India was eventually raised to the full amount of four millions

4818 You cannot give us any further information about the reduction of the silver reserve from six crores to three crores ?—That is all I can tell you

4819 With regard to the gold position in 1908 in the Paper Currency Reserve, we have heard a good deal about the question whether gold held in India would support exchange. Can you tell us where the gold was issued in 1908 ? Was it issued at the Presidency towns or was it issued from the District treasuries ?—A good portion of it was issued at the Presidency towns.

4820 And some of it in country ?—Yes.

4821 So far as it was issued in-country, that could scarcely be expected to be exported ?—That is so.

4822 At a time like that do you think it is expedient to issue gold to the general public ?—I think it is better to do it, because in the first place it would help to allay any suspicion about the intentions of Government to maintain its currency policy, and in the second place my view is, as I mentioned before, that any gold issued in that way would go to reduce the demand for the import of gold into the country

4823 There is no gold coming into the country at that time ?—No

4824 Do you not think it is of more importance to retain gold when the exchange is adverse for the purpose of maintaining the standard ?—The maintenance of the standard is undoubtedly the more important function of the gold in the possession of Government. At the same time, if we do not issue gold at a time of crisis we would immediately engender suspicion in the minds of the masses about the intentions of the Government with regard to the currency In 1908, as soon as Government said that they did not want to issue gold, I believe there was an increased demand for it at the currency offices

4825 That was in the Presidency towns ?—Yes

4826 With regard to the purchase of silver for coinage last year, can you tell us whether the plan which was adopted to finance this purchase, that is to say, by the sale of Council bills, was adopted at the suggestion of the Government of India, or was that left to the discretion of the Secretary of State ?—I think the suggestion was made by the Secretary of State, and the Government of India did not object to it

4827 In India the Paper Currency Reserves are kept entirely apart from the cash balances of the Government of India ?—Yes, that is so

4828 Do you know of any reason why that practice should not be followed in London ?—I think the same practice is followed in London also, and that the portion of the currency reserve which is held in London is kept quite separate from the balances of the home treasury

4829 But is it not the case that last year Council bills were sold against the currency reserve in India and the proceeds of those bills were put to the cash balances in London ?—No, I do not think that would have happened In fact, it cannot be done, because the Paper Currency Reserve is under law something quite distinct, and for that reason all the money which is held on account of the Paper Currency Reserve in England is specially earmarked

4830 In the case of loans which it has been suggested might come from the Paper Currency Reserve, I assume that you refer to loans in India only ?—That is so

4831 Not loans in London from the portion of the gold reserve held here ?—No All I intended was that those loans should be given against an actual increase in the circulation of currency notes

4832 (Mr Gillan.) Something has been said about these currency chests I only want to ask in order to make it plain The object of establishing these currency chests is not to give facilities for encashment of notes, is it ?—No

4833 It is merely what we call a resource operation ?—That is so. It is the function of the currency agencies, as I mentioned, to facilitate the exchange of currency notes.

4834 About the use to which gold held in India can be put in time of crisis, do you remember how much gold we had at the beginning of the 1907-8 crisis ?—No, I cannot give the actual figure, but I have heard that we lost about four millions in India.

4835 Was that all we held at the beginning of the crisis ?—Yes, that was apparently the case.

4836 What I wanted to get at was this There was considerable discussion in the Government of India at the time, was there not, as to what should be done or should be allowed to be done, with this gold—whether it should be given to people who wanted it for use in the country or restricted to people who wanted to remit it out of the country ?—Yes.

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[Continued]

4837 Do you happen to remember anything of the drift of that discussion?—So far as I remember, the Government of India first wanted to restrict the issues to meet *bona fide* demands on the part of the people of the country for a gold currency, that is to say, they wanted to stop all issues which were clearly required for the purpose of export, and with this object they decided that gold was not to be issued from the currency offices to anybody in sums in excess of a certain limit at a time, it was probably 10,000 at one time. Then I think eventually they thought that it would be safer to issue the gold freely so long as they had it, because their previous orders led to a rush for gold at the currency offices, and their limit was evaded by half a dozen men from the same bank going to the currency office and getting parcels of 10,000 at a time.

4838 (Mr Keynes) May I ask a question? Are we to understand that at the first stage of the crisis the Government deliberately tried to prevent the export of gold and deliberately tried to force gold into circulation?—No, it was not exactly that. What the Government did was to prevent the gold which it had in its possession from going out of the country. That is all it tried to do. It certainly did not try in any way to force gold into circulation.

4839 But it would only issue gold to those who wanted it for circulation purposes?—That is so.

4840 And deliberately withheld it from those whom it suspected of wanting it for export purposes?—Yes, that is the position.

4841 (Mr Gillan) For that purpose it imposed a limit?—Yes.

4842 Is that limit still in force?—No, I do not think there is any limit in force now.

4843 Is it not the rule that any applications for over 10,000 in gold shall be reported to the Comptroller General?—They are probably still reported to the Comptroller General, but so far as I know they are not reported for his orders. The Accountant General can issue the gold, and then he reports it to the Comptroller-General for other purposes.

4844 What is your own feeling about these alternatives? Supposing that this monsoon were to fail, you would have a lot of gold in India. How would you deal with the situation? Would you make any distinction between the gold taken for circulation in the country or for remittances abroad?—No, I would not make any distinction.

4845 Would you simply give it out to the first comer until your gold was exhausted?—Yes, quite so.

4846 Assuming that the greater part of that gold were taken for some use in the country—perhaps I am repeating a question already put to you, but I want to make it clear—do you regard that as equally efficient in the support of exchange as gold that is sent home?—It may not be equally efficient, but I think it fulfils the same object.

4847 The only reason I think you have given for that opinion is that *pro tanto* it goes to reduce the imports of gold?—Yes.

4848 Is that your only reason?—Yes, that is so, and, of course, there is the other reason that it would help to allay any panic or any suspicion in the minds of the people at large about the intentions of Government.

4849 That I understand. As a matter of fact, in a time of crisis or a bad season does the import of gold in one shape or another continue?—Taking the year as a whole I think it must continue, because some amount of gold must be absorbed for use in arts.

4850 For one reason or another?—Yes.

4851 The import of gold you think is always going on?—I think so.

(Mr Gillan) May we have a figure for that, Mr Chairman? I think we must have it at some time. Can we have it now? I have no doubt we can get it from somewhere.

(Chairman) Can the witness give us the figures? I do not mean at this moment, but can he hand them in?

(Witness) I think I could.

4852 (Chairman) The Secretary will get them\* (To the witness) In reference to the question just asked you, do I understand that the import of gold which you expect to take place into India in a time of crisis, and which you think might be lessened or reduced by having a larger amount of gold in circulation, is an import of gold, not for currency or for exchange purposes, but as merchandise?—It may be for both purposes. If the people can get the gold required for internal circulation from the currency offices there may be a smaller demand on their part for imported gold for a similar purpose. Of course, in a crisis like the one we had in 1908, the demand for currency will naturally be reduced.

4853 (Sir Robert Chalmers) May I ask one question as regards the location of the balances in London? In respect of the Gold Standard Reserve, I think I understood you to say that that is located in London in the interests of India?—Yes.

4854 You are very clear about that?—Yes.

4855 And as regards the raising of loans in this country, I think you expressed the opinion that every penny that can be raised in India is raised in India?—Yes. Of course, that is the view of the people on whose advice we depend when raising our loans in the Indian market.

4856 What is your main reason for keeping the Gold Standard Reserve in London? Would it be this sort of ground, that it is in London that the payments have to be made for which the Gold Standard Reserve exists?—Yes, that is so.

4857 Suppose you kept it in India you would not have secured that object?—Not exactly. Supposing we kept it in India, and then a crisis happened, and the Secretary of State was compelled to stop selling Council bills in India, then he would require money to pay the Home charges, and the Government of India would be compelled to ship its gold to the Secretary of State.

4858 It would be an extravagant method of doing the thing which you aim at doing by the better method which you described first?—Quite so.

4859 And in all those matters of the location of balances and the application of balances is it your own private opinion that the one object studied has been the interests of India?—I think so myself.

4860 (Sir James Begbie) May I ask one question as regards the question asked by Sir Robert Chalmers? You said that if the Secretary of State could not sell Council bills they would have to ship gold. The Government can buy their own drafts against the Gold Standard Reserve in London, can they not?—I do not understand the question. It would be just the other way. In a crisis people would want to pay in rupees in India, and would want to obtain gold in London.

4861 Yes, but I am talking about the Government's own remittances. Supposing the Secretary of State is not able to sell drafts in London on India, in that event you said that the Government of India would have to send home gold, but would the same effect not be arrived at if the Government of India bought their own drafts against the Gold Standard Reserve?—I do not see exactly how it would help them in getting any money in England. The demand then so far as the Government is concerned, is for more money in England, and in case of a crisis I do not see how the Government could get that money in England without actually shipping gold, if it kept the gold portion of the Gold Standard Reserve in India.

4862 In 1908 the Government sold bills in India against the Gold Standard Reserve in London?—Yes.

4863 The Government then did not buy their own drafts against that reserve, did they?—No.

4864 They could have done so if they had the money in India?—No. I do not quite understand the question. In 1908 what the Government did was this, they took rupees in India and gave drafts on London.

4865 That is to say, to the public?—Yes, to the public. If the Secretary of State wanted to take back those drafts it would not have helped him in any

\* See Appendix XXI., page 633.

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[Continued

way so far as the balances in the home treasury went. What the Secretary of State wanted was more money, and these drafts created a liability on him. They increased the payments from the home treasury.

4866 Yes, but the Gold Standard Reserve exists for the purpose of meeting a case like that, does it not?—I understand the assumption is that the Gold Standard Reserve was to be transferred to India. If the Gold Standard Reserve remained in England, of course the Secretary of State could have sold the securities of the Gold Standard Reserve. That would

have depleted the money in the Gold Standard Reserve temporarily. But I think the point was, if the money in the Gold Standard Reserve was transferred to India, what would happen in the case of a crisis.

4867 (Sir Robert Chalmers) That was exactly the point I wanted to put to you—as to the policy. You answered that in the interests of India it was desirable to keep the Gold Standard Reserve here?—Quite so.

4868 The balances were dealt with in the interests of India here?—Yes.

The witness withdrew.

At the India Office, Whitehall, S.W.

TWELFTH DAY

Thursday, July 10, 1913.

PRESENT

THE RIGHT HON AUSTEN CHAMBERLAIN, M P (Chairman)

Lord FABER  
Lord KILBRACKEN, G C B  
Sir ROBERT CHALMERS, K C B  
Sir ERNEST CABLE  
Sir SHAPURJI BURJORJI BROACHA

Sir JAMES BEGGIE  
Mr ROBERT WOODBURN GILLAN, CSI  
Mr HENRY NEVILLE GLADSTONE  
Mr JOHN MAYNARD KEYNES  
Mr BASIL P BLACKETT (Secretary)

Mr JAMES N GRAHAM called and examined.

4869 (Chairman) I think you represent the Bombay Chamber of Commerce?—Well, I can scarcely say that I represent the Bombay Chamber of Commerce. I believe they were good enough to give my name, but my connection with the Chamber of Commerce is of very old date.

4870 Will you give me very briefly, so that we may have it on the record, the nature of your association with India?—It is now, I am sorry to say, about 45 years since I went to India, but I have been closely connected with commerce all that time, and, in fact, I may say that my firm is one of the largest in India, and has very large financial transactions both as regards exports and imports.

4871 I think you wish your views to be taken as personal to yourself and not to be considered as delivered on behalf of your firm?—That is so.

4872 Are you in favour of the establishment of a central or State bank for India?—I assume that the constitution of such a bank has been carefully considered and is looked upon as not only practical but practicable, and it is in that sense that I would answer any question put to me on that subject. Provided that it is practical and practicable, I certainly would be in favour of its institution being very fully considered.

4873 What is your idea of the business which such a bank ought to transact?—I am not a banker, but I should say that the Government of India, like anybody else, requires a banker, and should not be its own Bank. For instance, to become money lenders, that is to say, in other words, a Bank, is not a suitable function for a Government. That is the view I take of it, and therefore a Bank would be more suitable to do the banking business of the Government.

4874 In the banking business you would include, I understand from what you have just said, the loaning out of any balances, that is to say, you contemplate that the Government of India would keep its balances with the bank, and that the Bank would use them as they thought fit?—I am not intimately acquainted with how the Bank of England carry on such operations, but I should regard these balances as being in very much the same position as the public deposits in this country in the Bank of England.

4875 Would you give to the bank the management of the currency—the note circulation?—I should think that would naturally become one of its functions.

4876 And the exchange business, or that part of exchange business which is at present done by the sale of Council bills?—Yes, I should say so, under instructions from the Council.

4877 Do you contemplate that it would do general banking business throughout India?—That, of course, is a very big question. I have thought a good deal of how it would be constituted in India, and I should think there were considerable difficulties connected with that, not insuperable, but at any rate difficulties that require very great consideration.

4878 You contemplate, I understand, that the Government would be represented on the board of directors of the bank?—Yes, I should think so.

4879 But the majority of the directors would be representatives of the shareholders, and unofficial?—Yes, certainly.

4880 Do you think such a bank should be formed by some amalgamation and possibly extension of the three Presidency banks, or that it should be an entirely new institution, so to say, superimposed upon them?—What passed through my mind was that it would be a new departure absorbing the Presidency banks.

4881 Do you think that the local needs of the people of India would be as well met by one centralised institution of that kind as they are by the three Presidency banks?—I should think that the Presidency banks would still continue to perform their functions within their spheres, and that the central bank, wherever its headquarters might be, would have a directing power. But I cannot talk as a banker, I can only talk theoretically on subjects of that kind.

4882 In that case you think that something in the nature of a local board, at any rate, would be required in the separate Presidencies in order to provide sufficient knowledge?—Yes, I should think so. India is too large a country for the concentration of all the executive work at one centre.

4883 You have already said that your first reason for desiring, if it were practical, the establishment of such a bank is to relieve the Government of banking duties?—Yes, and not only to relieve the Government, but to relieve the Government officials of duties which I do not think are within their sphere.

4884 Apart from that, have you other reasons why you think that the establishment of a central

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MR JAMES N GRAHAM

[Continued]

bank would be desirable?—I do not know on the spur of the moment that I can suggest anything

4885 I will ask you one or two specific questions Do you think that such a bank would secure in the form of deposits much of the treasure now hoarded in India, in other words, would it get out of India an addition to the banking capital of India?—That entirely depends I should say that it came within the functions of the Presidency banks, under the direction, of course, of the head Bank, to organise a system throughout their spheres of establishing credit, because in India it is a matter of confidence and credit to get these hoards out A native will not bring his money to a bank unless he is absolutely confident that he will get it again That has been so from time immemorial, certainly for the last 40 or 50 years, to my knowledge The natives put away their money in the ground because they can find it there again

4886 As far as they are prepared to bring out their money at all and entrust it to anyone, do you think that want of confidence in the Presidency banks prevents their doing so at the present time?—I cannot say at the present time, because, except as a visitor, I have not been closely in touch with India for a good many years, but I certainly think that it is the case that natives will not readily trust their money to anybody else except to themselves

4887 But you think if a State bank were established they would have sufficient confidence in that to entrust their money to it?—I think they would, and what I have in my mind is the Scotch banking system, which is a wonderful illustration of what can be done throughout a country by local institutions which get the confidence of the surrounding people

4888 I was wondering whether the mere fact that the bank was called a State bank and had certain intimate relations with the Government, including at least one Government director on the board, would appeal to the native mind as giving a security different in kind or amount from that which was given by such old institutions as the present Presidency banks?—I think the fact that it was a State bank might I do not think the personnel would come before the people depositing their money, but the fact that it was a State bank would certainly give confidence, and that confidence would grow when they found that they could take their money and get it whenever they wanted it again, and get it with something a little more than they had put in Confidence would grow, but it would take time, no doubt

4889 I think you said you would transfer to such a bank, if it were established, the exchange business, so far as it dealt with the sale of Council bills and transfers That is so, is it not?—Yes, that is so, because I have always thought that the Council drafts might be regulated, not only for the convenience of the Government, but for the convenience of the general public I put some views of that kind before Lord Salisbury so long ago as 1876—it is an old story—and suggested that the Council drafts should be allocated more or less throughout the year, and available throughout the year, to meet what were found to be the general requirements of the trade, &c

4890 I will return to that in a moment, but may I first ask you whether you would allow the State bank to compete with the exchange banks for general exchange?—No, I should say not

4891 You would confine it to drawings to meet the needs of the Secretary of State?—Yes

4892 If it was decided to establish such a bank, you have already told us how you would deal with the Government of India balances, but suppose it were decided not to establish such a bank, have you any criticism to make on recent management?—It seems to me that what the Indian Government want in this country are bankers rather than a Bank of their own They have certain disbursements to make, they have their ordinary disbursements, and disbursements for the purchase of silver, and for creating what may be absolutely essential and necessary as a Reserve fund These are all disbursements which they have to make, or to provide for, and it seems to me that that can be

done by a Bank more legitimately than by Government officials

4893 But hitherto the Government have had to do it?—That is true

4894 And, as you say, as long ago as 1876 you made representations to Lord Salisbury, then, I think, the Secretary of State, on the subject?—Yes, as regards Council drafts more particularly, which had been very badly managed previously

4895 And following thereupon there was an improvement, in your opinion?—Three weeks after my letter went in, some of the changes suggested were adopted

4896 Have you any further changes to suggest as a result of your later experience?—The only one which was not adopted—at least, I think it was the only one which was not adopted—was what I have already referred to—a kind of allocation of Council drafts over the year according to what might be considered convenient both for the Government and for the public

4897 Is not that done now? I think it would be the contention of the Secretary of State that, subject to the necessities of the Indian Government, and to taking security as far as he can that he shall be able to meet them in the course of the year in which they fall due, he does manage his business in the light of the interests of trade?—I have no exception to take to the management as it has been carried on, we are talking rather of principles as to how it should be carried on than the practice which has existed I should think probably it has been very well managed so far as the present system admits

4898 You have no particular observations to make on the size of the balances in recent years, either in London or India?—I have not studied what these balances have been, but I certainly think that unnecessarily large floating balances kept in this country are not desirable under the circumstances, that the Government collects its taxes in India, and to transfer that money here and to keep it unnecessarily is not a sound system

4899 Have you looked into the use of the balances sufficiently to say that in your opinion money has been unnecessarily brought here?—No, I have not

4900 I presume you would agree that supposing the revenue turns out more favourably than is expected, and there is a considerable balance, it is reasonable for the Secretary of State to bring that balance to this side to meet capital expenditure for which he would otherwise have to borrow?—Yes, certainly

4901 You would not recommend that a surplus should be distributed in the form of a reduction of taxation unless it were a permanent surplus, I suppose—unless it were one upon which you could count in subsequent years?—Would it not follow that in budgeting for the following year the Indian Government would either take credit possibly for another windfall of the same kind, or for what might be considered a permanent increase in the revenue of the country?

4902 Of course in any particular circumstances it might be right to do it, or it might not, that would depend upon the particular circumstances All I asked was, supposing that the Government felt that the surplus was a windfall, to use your own word which would not be repeated, you would not recommend a remission of taxation which could only hold good for one year with the necessity of reimposing a tax in the following year?—No If I may speak from a business point of view, I would be rather inclined to put the windfall into a reserve

4903 Is not that what the Secretary of State does?—Do you mean investing it?

4904 Well, in using it for development works, for railways or irrigation?—I am entirely in favour of that

4905 The reason why he has brought these balances—these large sums—over here is because in normal times, and without the balances he is a constant borrower here If, therefore, he has a windfall in a particular year, or in a series of years, could he make a better use of it than bringing it over here to meet



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expenditure for which he would otherwise have to borrow? In other words, could he make a better use of it than using it to prevent the creation of debt?—Have I not answered that question already? The money would be there, whether it is in India or here, and available for that purpose, and it would be a matter of convenience, I should say, whether it was held in this country or in India.

4906 Suppose the Secretary of State had larger balances in India, or that there was a surplus in his existing balances, do you think it would be desirable for him to loan out the surplus in India in somewhat the same way as he has lent out temporary surpluses here in London?—No, I do not think Government should do that. I think that should naturally go through a Bank. Is not the system now that the Presidency banks receive the balances of Government?

4907 They receive a portion. They always have a good deal of Government money, but at the same time there is a good deal of money in Government treasuries at certain periods of the year, and it has been suggested that at the busy months of the year the Indian Government might lend that money on the Indian money market?—Would it not be better for them to let the Presidency banks have it? I was connected at one time with the Bank of Bombay—I think I was chairman at the time—and I remember, I do not know whether it was the Secretary of State or the Finance Minister, trying to corner the money market of India in order to raise the rate of exchange for Council drafts. That is not an incident which is likely to recur, I should think, but that is an actual fact.

4908 Supposing the Government of India made a practice whenever it could of lending additional sums to the Presidency banks in the busy season of the year, let us suppose that they had been able to do that for three or four years running, and then came a year of strain and stress in which they were unable to make any loan, what would be the effect of that upon trade?—In whichever way it was, the effects on trade must be very serious, but I do not see how it would make any difference that they had benefited trade at one time and that they could not do it at another time. Trade would have to look after itself.

4909. A suggestion has been made that if they had done it for two or three years trade would have come to count upon it, and when, after that period, it was not done, the effect upon trade would be much more serious and disastrous than if it had never been done at all?—I think trade would look after itself.

4910 I go to another subject. The Secretary of State has, of course, very heavy demands to meet in London, and they are growing as he borrows more money. Do you think he could lessen the strain by borrowing more largely in India? I do not know whether you can speak with authority upon that question?—I do not think I can speak with authority, but from my knowledge of India I should always advocate that, if loans can be raised in India, the money should be obtained there rather than in London.

4911 But you would not like to express a confident opinion as to whether he should borrow more largely than he has done in India?—No, there are much better opinions obtainable than mine on this subject.

4912 I gather from what you have already said that, assuming the Secretary of State is to deal himself with Council bills and transfers as at present he has to do, you favour his practice of selling, not merely to meet his own requirements, but as far as he can up to the requirements of trade?—No. I would not advocate his selling more than he requires for his disbursements and possibly for other purposes, such as, for example, if it were desirable to increase the reserve fund in this country.

4913 Taking his own needs in the widest way, you would say that he should sell to the extent of those needs, but no further?—Yes, that is the doctrinaire view which I would take. Whether or not a little elasticity should be allowed in that—whether he should sell at higher and higher rates—I am not prepared to say offhand. That is an open question, but certainly as a rule—there might be exceptions—I should think that he should sell to meet his own legitimate requirements.

4914 Do you think that they would be generally held in India?—I do not know.

4915 What is your objection to his selling to meet the needs of the trade in addition to his own requirements, if he can do it without inconvenience?—I think myself that trade had better look after itself, and that if the money that has been collected in taxes is through banking channels put at the disposal of trade that is quite sufficient.

4916 I think that you have always been in favour of the creation of a gold reserve?—Yes.

4917: And you thought that the creation of a gold reserve necessitated the restriction of the free coinage of silver?—Yes; in fact, I may say that I go back to the year 1876, when for some six years—the great battle of the mono-metallists and the bi-metallists had been raging, and I do not know whether I was the first or not, but I then put forward the necessity of creating a gold reserve, and the consequent necessity of restricting the coinage of silver. I do not know that anybody else had proposed that before I did so myself.

4918 Looking back on what has happened since those steps were taken, you see no reason to modify the opinions you have expressed?—None whatever.

4919 In connection with these changes, I think you advocated the opening of a mint for the free coinage of gold?—Yes.

4920. And you recommended that the coin should be the sovereign?—Not necessarily the sovereign, but a coin identical with the sovereign.

4921 In weight and fineness?—Yes.

4922 Will you tell me shortly why you advocate the opening of a mint for the coinage of gold in India?—There is nothing novel in that idea at all. In 1835 the Government had dies for gold mohurs. I forget what the value of the mohur was, but I have one in my pocket. Again, in 1870, the Government, without consulting anybody, so far as I can remember, took it into their head that they were going to introduce, I suppose, bi-metallism into India, and they sent out the dies for 10-rupee and 5-rupee pieces. That was in 1870. There were, I think, only 30 of the 10-rupee pieces coined, I have one with me at present. That was the date when the great revolution took place both in trade and in money by the opening of the Suez Canal, and owing to the results of the Franco-German War, and so the dies were luckily put on the shelf, and were never used any further, because had it been attempted to put a 10 rupee piece in circulation it would very soon have disappeared.

4923 Where would it have gone, would it have been melted down, or hoarded, or what?—It would have been melted.

4924 But you think that a sovereign, or the equivalent of a sovereign, would not be?—If it is called a sovereign or a mohur or whatever it may be, it has in India its market value. If you give it a fixed rupee value you get into all the difficulties of bi-metallism.

4925 I do not think you have yet told me why you want a mint opened except that you said it was an old idea?—Merely for public convenience. I do not think that is a very important consideration. It is a matter of public convenience that anyone who has gold bullion in any shape might go to the mint and get it coined.

4926 Do you think that much gold would be taken to the mint in India if there were a mint?—I do not know. I think I rather founded my idea on the fact that preceding Governments of India had contemplated coming gold, and I did not know of any objection or difficulty. If there are difficulties or objections, then the sovereign is a very excellent coin, and might do all that is required.

4927 Is there any difficulty in getting sovereigns if people want them in India now?—I have only in recent years been there as a visitor, and now I have been very glad to find that sovereigns pass freely and are easily obtainable.

4928. Your desire, I gather, is to see a gold currency as far as possible established?—No, I do not think that matters very much. I should like to see it so far current that you could always change a gold coin, for instance, not to take a sovereign to get your ticket

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[Continued

at the station and be offered 10 rupees for it, as you were long ago

4929 On the other hand, if people can be induced to use paper currency you see no objection?—No objection at all. In fact, I think that it is quite possible that if there were a Bank such as we have been talking about—this may be theoretical—there might be a gold paper currency as well as a silver paper currency.

4930 Would it be an unfair inference from what you have said that on the whole your reasons for favouring the opening of a mint in India are sentimental rather than practical? I do not say they are any the worse for it?—I do not admit that they are sentimental. I merely adopted them because I thought it might be a convenience to the public.

4931 As regards the gold standard reserve have you any observations to make upon that?—Do you mean as to where it should be located?

4932 Yes, in the first place, where should it be kept?—I think the best place to keep a reserve is the place where it will be required for the contingencies against which it provides, and therefore I should say that is in London.

4933 Have you any view as to the amount which it should reach? It is fed from certain sources. Would you continue to feed it with the whole of those sources until it reaches some fixed amount?—I think that is a question upon which the Government should get the expert advice of bankers and others, which would be more valuable than mine.

4934 You would say, therefore, that it was also rather a question to put to bankers as to what proportion of the reserve should be held in actual gold and how the rest should be treated?—I should say that there certainly should be a reserve which is held permanently in gold on certain conditions, that is to say, it is held against certain contingencies, and only available for use should those contingencies arise.

4935 What are the contingencies which you contemplate specially?—For instance, we have had experience of famines, and difficulties, when it would not be desirable to force Council drafts on the market, and under such circumstances it might be desirable to trench on the gold Reserve.

4936 You would use it as a reserve for the maintenance of the exchange value of the rupee, is that your meaning?—Not exactly that, but to prevent enforced sale of Council drafts in this country.

4937 In an unfavourable market?—Yes.

4938 The effect of that enforced sale would be to depreciate the exchange value of the rupee, would it not?—Yes. I should think just now, for instance, supposing the Council were to offer 100 lakhs of Council drafts and make no restriction as to the rate at which they were to be placed we should not see much of the fixed rupee.

4939 Am I right in saying that the object with which you originally proposed the gold reserve was the maintenance of the exchange value of the rupee?—No, I do not think that is the primary object of the reserve.

4940 What is the primary object, in your view?—The primary object is because the Indian Government has gold obligations to meet which it must meet, and if it only had silver with which to meet them it would be in a bad way.

4941 It is a reserve for the times when the circumstances of trade are such that it cannot get gold to meet its obligations here in any other way?—More or less, yes.

4942 I think you do not desire to express any opinion as to the amount which should be held in gold?—No, I think that is a question which would require a great deal of consideration.

4943 Have you any criticisms to make on the present practice in regard to the purchase of silver for

rupee coinage?—I think that such transactions would naturally go through the bankers or the Bank, which ever it might be, that represented the Indian Government in London.

4944 But as long as there is no such bank you have no suggestions to make for improved practice in those matters by the Secretary of State?—I think the difficulty which arises there is in respect of what might happen—not what has happened or what is likely to happen, but as regards what might happen. For instance, with regard to the recent incident in which the Government were rather called to account for the way in which they acquired silver, I think in that case the transaction was carried out on good business lines, but, on the other hand, it is conceivable that under the conditions which exist it might have been badly or improperly carried out.

4945 You think, at any rate, it is an invidious duty for a Government to have the discharge of, and that it would be better done by a business institution?—I think so.

4946 (Mr Gladstone) You have referred to the objection to Government undertaking such very large banking and financial business, but the same thing applies, does it not, to the management and control of railways? The circumstances are such as almost to render this large Government superintendence essential. Would you go so far as to recommend that the railways should no longer be managed by the Secretary of State?—What I have had in view in anything I have said has been mainly in respect of financial transactions when Government officials are brought into direct contact with the public. As regards the control and management of State railways, these involve other considerations than those I have referred to. The executive and financial management of State railways necessarily devolves on the direct representatives of the Government.

4947 Then in the event of a State bank being established it would be necessary to have a great deal of Government control?—I should think there would be decidedly a certain amount of Government control.

4948 So that that would not really relieve Government of the responsibility of continuing to conduct these operations?—I think it relieves Government of the operations themselves. The Government do not become moneylenders themselves, it is an institution which does it. At present the Government are money lenders.

4949 Take the control and management of the Port Trusts in India, where there are official directors. In the last resort the Government is held responsible for the policy and the direction of these Port Trusts, although they may only have one or two representatives on the Trusts, is not that so?—There is nothing in the nature of trade in that, either in money or other things.

4950 The management of docks is a large business operation?—I do not see how it would be possible to manage it otherwise. That is one of the functions which the Government exists for, I should think.

4951 (Sir Shapurji Broacha) Were you in Bombay when the first Bank of Bombay was in liquidation?—No, I arrived just after, it was still in liquidation, I think, when I arrived in Bombay.

4952 I mean the first Bank of Bombay—the old Bank of Bombay. Were you there when it went into liquidation? Do you know the history of the first Bank of Bombay?—No, I arrived in Bombay about two or three years after it failed.

4953 So that you do not know anything about that, or its constitution?—No.

4954 Or whether the Government had shares in it?—No, I know nothing about that.

4955 Nor about the Government directors on the board?—No.

The witness withdrew.

The Hon MONTAGU DE P WEBB, C I E, called and examined.

4956 (Chairman) Will you begin by telling us briefly what your Indian experience has been, so that we may have that on the record?—I first went out to India 23 years ago as a merchant, and my experience for the last 23 years has been as a merchant.

4957 I think you are President of the Karachi Chamber of Commerce?—Yes.

4958 Do you express their views to day?—Yes.

4959 You speak for them as well as for yourself?—Yes.

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[Continued

4960 You have been good enough to supply us with a memorandum giving your views on the subjects referred to, and I propose to print that with your evidence, as we have done with other witnesses, or shall do with some other witnesses (see Appendix XXI, page 550) That being so, I will not ask you questions on what you have written there, but I will put some questions to elucidate what you have written Your first point, I see, is that the total balances of recent years have been excessive?—Yes

4961 Am I right in thinking that you attribute that to undue pessimism in budgeting?—Yes

4962 You think that on the facts known to the Finance Minister at the time when he presented his budget he would have been justified in taking, and indeed ought to have taken, a more favourable view of the outgoings of the following year?—Yes

4963 At the same time I suppose you will admit that it is very difficult at the beginning of a financial year in India to forecast what the revenue for the following year will be?—Very difficult

4964 It depends in the main on the monsoon, I suppose?—Yes

4965 That directly affects the general revenue?—Yes

4966 And of course the railway revenue?—Yes

4967 Would you agree that under those circumstances, having regard to the uncertainty, it is desirable that the Finance Minister should err if at all on the side of caution?—Yes

4968 You would agree that it would be undesirable that, owing to having taken too sanguine a view of the prospect and having remitted taxation, he should have in the next year to re-impose the taxation remitted?—Yes

4969 In regard to those balances, you suggest in your memorandum, I think, that they should have been used to reduce taxation, that on realising those balances the Government of India should either have reduced taxation or budgetted for large deficits, or suspended all borrowing and invested the balance in reproductive works?—Yes

4970 Having regard to what you have just said to me, do you think that in the circumstances of those years a prudent minister would have remitted taxation?—Yes, I think so I think that excessive caution was shown in preparing these budgets I think considerably more risk might have been run without jeopardising the financial position at all

4971 You think that, say, in the first of the years that you take, it would have been safe on the results of that year to reduce taxation in the following year, or in which year would you have thought that that could be done?—Yes, I think that with a million and a half surplus something might have been taken off

4972 On the facts as then known, not looking back with your knowledge since acquired of the results of the later years, but upon the facts as then known?—I think so I think in any year when there is a million and a half or two millions to the good the Government would be safe in budgetting to dispose of that surplus, not necessarily by taking off taxation, but perhaps by using the money instead of raising fresh loans—the customary and usual loans

4973 Given the situation of India as it is at present, I think that you recognise that she needs large capital sums for development?—Very much so

4974 Assuming however, that you had a surplus available, would you have advised the use of it for development purposes?—Yes

4975 Rather than for the reduction of taxation?—Yes. The chamber of commerce in Karachi have pressed that course upon the attention of other chambers, and I think we also have drawn the attention of the Government to it, but I am not quite sure about that. We have certainly consulted other chambers on the question of utilising these large surpluses, particularly for railway purposes.

4976 So that, of the three alternatives which you suggest in your memorandum, the one which you yourself would have chosen would have been suspending borrowing and devoting the surplus to reproductive capital expenditure?—Certainly May I in this connection draw attention to the fact that by a

printer's error in the fourth line of paragraph 5 of my statement "15,000,000" has been printed for "5,000,000"? I intended it to be 5,000,000 It should read, "And that a cash balance of, say, 5,000,000 in excess" instead of "15,000,000"

4977 That shall be corrected You said that your criticism is that the Government of India was unduly pessimistic?—Yes

4978 Putting that on one side for the moment, assuming their calculations were reasonable at the time when they were made, would you then criticise their practice, or would you say that taking their assumptions—assuming their premises—they did, in fact, what you would recommend?—To a certain extent, yes

4979 Having a realised surplus in each of these years they did not budget to swell the balance so obtained, but they budgetted to reduce it to something like the normal Is not that so?—I think last year a surplus was budgetted for, as far as I remember I seem to have a very distinct recollection of Mr Gokhale over and over again pressing the attention of the Council to the fact that there was a surplus, and that he was positively certain that the surplus would be very much greater I remember that distinctly I think it was in last year's budget debate

4980 Of the years you name, I think the only one in which they deliberately budgetted for a larger balance than usual was the year 1910-1, and the ground put forward for that was that they had heavy repayments for debt to make in 1912

4981 (Mr Gullan) May I explain? What happened was that the Government of India, in the budget to which Mr Webb refers, had budgetted for a surplus, I think of a crore and a half, and what Mr Gokhale said in the budget debate was, It is quite true you have budgetted for this sum, but I think you really are going to have a surplus very much larger He said that in the budget debate, and I think that is what Mr Webb meant?—That is what I have in mind

4982 (Chairman) That is really your original criticism, that they were unduly pessimistic?—Yes

4983 That may be a question of temperament or wisdom?—Quite so

4984 But I was going to intentions Assuming that their programme had been realised and their estimates had been correct, you would not have found great fault with the results, would you?—If the estimates had been proved to be correct, no

4985 As regards the use made of the large balances, in paragraph 8 of Part I of your memorandum (page 552) you point out that the Secretary of State has lent to certain borrowers in London large sums of money for a period of several years in all?—Yes

4986 And that those loans have always been made as short-term loans?—Yes

4987 And that therefore the rate of interest which has been obtained has been less than would have been secured if the money had been lent for longer periods?—Yes

4988 I want to ask you whether, in your opinion, the Secretary of State was wrong to lend only for short terms?—I think certainly wrong in view of the magnitude of the balances available

4989 You think he ought to have adopted the policy of lending, say, for 12 months?—Assuming that he was correct in accumulating this money in the first instance, then the best policy if he was able to lend it would have been to lend it certainly for very much longer periods than three to five weeks.

4990 But assuming that he believed that his balance would be reduced by the end of the year to normal, would you still say that on that assumption he was wrong to make his loans for such short periods?—That question seems to me to take the form that assuming that he was right he was right, but seeing that every week he was withdrawing money from India, which he did not in the least require, in my opinion, he could not possibly imagine that he would run short of money By the sales of Council drafts he is weekly withdrawing money, so that he would be an extreme pessimist who thought that he was going to run short of money, I think, in those circumstances, especially with 10 millions, 12 millions, or 15 millions of cash in hand.

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[Continued

4991 In your view the major portion of that money, or a large portion of that money, should have been left in India?—Yes

4992 And as I understand, you would suggest that in India it should be lent out to lessen the stringency of the money market?—Yes, if this accumulation in the first instance was unavoidable

4993 Might it not be right to accumulate it even though it were avoidable, India being a country which is in this great need of development of which you have spoken? The amount of development which you do measure very largely by the resources which you can make available in any year?—In a sense, yes

4994 If you have a prosperous year might it not be good policy for the Government of India to use that prosperity to carry out a larger policy of development than it otherwise would do?—Yes, it might conceivably be so. If it be laid down as a general policy of the Government of India that money shall be raised by taxation which is to be used as capital on reproductive works, there is a great deal to be said for that policy at times

4995 As regards the balances which might have been made available in India, to whom would you have lent them?—In the first instance to the Presidency banks

4996 Would you have gone outside the Presidency banks?—Yes

4997 You mean that the Government of India should directly have lent to others besides the Presidency banks?—Yes

4998 To whom?—There are many other banks. Some of the exchange banks which are operating in India borrowed some of this money in London. I have no doubt they would have borrowed it quite willingly in India, where it was, no doubt, wanted

4999 Then you would lend it both to the Presidency banks and exchange banks if they wished to take it?—Yes

5000 Would you lend it to anyone else?—Yes

5001 To private borrowers?—Yes

5002 Would you ask security from everybody?—Not necessarily everybody. I should ask security from most people, certainly

5003 From all private borrowers I assume you would ask security?—I think so, yes

5004 Would you from the banks?—Not necessarily. It depends upon the amount and the time, and the general situation. There are times when I should unhesitatingly lend the banks any amount of money on no security, and there are other times when I might conceive it advisable in the public interest to take security. It depends on the general financial circumstances, and possibly the political situation at the time

5005 Does that mean really that it would depend upon your judgment of what the position of the banks was at the moment?—Yes

5006 You are aware that the Presidency banks have considerable Government balances, I suppose?—Yes

5007 But you think that without taking security it would be safe largely to increase the sums placed with them?—Yes, I think so

5008 Do you contemplate that this money would be needed all the year round?—A large sum of additional capital?

5009 Yes?—Possibly not all the year round

5010 Mainly in the busy months the winter months?—Mainly in the cold weather, yes

5011 So far as you took security, what sort of securities do you contemplate that the Government of India might accept against such loans?—All Government paper in the first instance, and securities of semi-Government institutions such as the Bombay Improvement Trust or the Calcutta Improvement Trust, and I do not know why selected Port Trusts, and even selected municipal loans, should not form a good security for temporary advances

5012 Securities of public authorities generally?—Yes

5013 You do not mean that the Government of India should lend on commercial paper?—No, not on commercial paper

5014 What amount of money do you think could be usefully employed in India in that way?—It is very difficult indeed to say. Of course, the popular impression is that there is not very much scope for using very large sums of money. That is the popular impression, but as against that there always are, in my own practical business experience, large demands for capital, and there are always large opportunities for employing capital, and to me there are many opportunities which are not availed of. I can see many opportunities of using capital

5015 Do you think they would use more than four or five crores in any normal year?—In the busy season

5016 Yes?—It is very difficult to say. I could not say straight away, but I think the general impression, so far as my experience goes up to the present, is right, and that there is no large scope for the sudden engagement of enormous volumes of money such as there is in this country

5017 It has been objected sometimes, and I think it is an objection which has had weight with the Government of India in the past, that even if they could see their way from time to time to lend money in the method which you propose, there would be a danger that the Indian money market and Indian traders would come to count upon that assistance from the Government, and then if in any year the Government was unable to give it, very serious consequences, something in the nature of a crisis, might follow. What do you say to that?—I do not think there is any ground for that theory in the least. I think that with a thoroughly suitable and satisfactory currency system you could always draw funds in large quantities from London in emergencies

5018 So that you think it conceivable that there might be difficulty for the Indian Government to withdraw this money from the banks to which it had lent, or refuse to lend to them, but you think that London would be a reservoir out of which it could always supply itself?—Yes in an emergency

5019 Of course, as you have said earlier, the revenue of India is a very uncertain quantity, depending so largely on one factor, the monsoon?—Yes

5020 You also are aware, of course, that the demands which the Secretary of State has to meet in London year in and year out are very large?—Yes

5021 Do you not think there is something to be said for his practice of getting his money over here when he is certain that he can and not waiting till the last moment when he needs it, and when he may find a difficulty in transferring it?—My view is that he can take very much greater risks than have been taken in the past

5022 You think in that respect also he is unduly cautious?—Dreadfully pessimistic

5023 I want to turn for a moment to paragraph 9 of Part I of your memorandum, where you point out that in 1910 the cash balance in hand on the 1st April was nearly 12,800,000, and yet in that year you say that the Secretary of State borrowed three sums of 1,000,000, 2,500,000 and 1,500,000 respectively?—Yes

5024 I think your contention is that, given that cash balance, he ought not to have borrowed?—No, he ought not to have borrowed. I think

5025 The borrowing, I think, took the form of a renewal of the bills which fell due?—I think it did

5026 In that year, 1910, the budget estimate was for a closing balance of five millions odd?—Do you mean the Secretary of State's budget?

5027 I mean the budget of the Indian Government?—I cannot say from memory

5028 I misunderstand you, perhaps, I mean the estimate of the India Office balance?—The Secretary of State's estimate?

5029 Yes. The estimate to which they were working was that the balance of 12,799,094 on the 1st April would be worked down to a little over five millions on the 31st March 1911. Perhaps you would take it from me that that was their estimate?—Yes

5030 That is the estimate which was framed as to what the position would be at the end of the year. You would say 5½ millions, which is the figure which

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he estimated to have, was too great a figure?—Two millions too great, I think.

5031 You would say that, although he had to pay off 2½ millions of bonds at fixed dates besides meeting his ordinary expenditure?—Yes.

5032 You think with that in front of him it would have been safe for him to estimate for a balance of only three millions at the end of the year?—Certainly, I think so.

5033 You recognise that his decision as to paying off bills must be taken a little in advance of the time at which they fall due?—Yes.

5034 If he has to renew bills he must make his arrangements with the Bank of England so as not to clash more than is necessary with other operators?—Yes.

5035 Taking those figures, there was one million falling due on the 9th April, 2½ millions falling due on the 10th June, and 2½ millions falling due on the 1st December. Those are the figures given in your memorandum (page 553), with the exception that the December number in your memorandum stands at 1½ millions because only 1½ millions out of the 2½ millions was renewed. What I wanted to put to you was, whether you thought that at the time of the year at which he had to take his decision as to renewing the sums falling due in April and June he had any more knowledge than he had when he framed his original budget estimate of what the results of the year would be?—He could have no more accurate knowledge of what the final results would be, certainly, and also that part of the year I admit was a very bad season of the year at which to draw money from India, but in that respect I can only say he appears to me to be unduly pessimistic. I think that he is not running nearly so much risk as a private financier who had to deal with those figures would run. He is taking a very much safer line, and an unnecessarily safe line, it appears to me.

5036 But given what you consider his original error of being unduly pessimistic in framing his budget, nothing had occurred up to that time which ought to have made him reconsider the position?—That I cannot say from memory now. It was in 1910.

5037 But you would agree that at that period of the year—early in June—he would know little or nothing more of the prospects of the year than he did when he made his budget statement?—No, not much more in June.

5038 So that, given the original error, the practical criticism is that instead of paying off only one million in December he ought to have paid off the whole 2½ millions then?—I think he might have done so, yes.

5039 Is it within your knowledge that besides those bills he had to pay off nearly two millions in 1912-3 and a sum of 1½ millions in 1913-4?—There were large sums to be paid off, but I do not remember exactly what the figures were and the dates.

5040 Would you admit the necessity for doing that as a reason for keeping the balances somewhere above normal, at whatever figure you might fix your normal?—It does not appear to me necessary to make any special provisions for those payments when there are cash balances at the beginning of the year of over 16 millions sterling. I cannot see any necessity to make any special provision for anything with a 16 millions sterling cash balance. In fact, if he drew no bills throughout the whole year he could very nearly carry on and pay off all debts with an opening balance of 16 millions or an opening balance of 18 millions. I cannot conceive any necessity to make any preparation.

(Mr Gillan.) May I explain that the budget always provided for a very large reduction in the opening balance?

5041 (Chairman.) What do you say to Mr Gillan's suggestion? Let me put it in this way. It seems to me that because not merely the opening balance, but the closing balance, was very high, you argue after the event that he ought to have done something different?—Yes.

5042 But the Finance Minister did not anticipate that the closing balance would be very high. I think he proposed to keep it higher than you consider

necessary, but I will come to that in a moment, but in each of these years he budgeted for a great reduction in the closing balance?—The Secretary of State budgeted for a certain reduction, but the figures appeared to me to be extremely questionable. I have before me the explanatory statement which was published last February, giving at length the reasons for those reductions (Cd 6619). In explaining these large closing balances, on more than one occasion the reason is put forward that the Secretary of State drew nine millions in excess of his requirements. That is the explanation which occurs on more than one occasion, that the balance turned out to be very much greater than anybody had anticipated or imagined, the reason being that the Secretary of State had himself made it very much larger by weekly piling it up without the slightest necessity, as it appears to me.

5043 Assuming that the total balances were for one reason or another very much larger than had been expected, what was the best use that the Government of India and the Secretary of State between them could have made of the surplus?—I think the best use would have been to place money at the disposal of the Indian money market, not to have lowered exchange by drawing it away to this country.

5044 But in getting it over here was not the Secretary of State getting it where it would eventually be needed?—Not in the slightest, I think.

5045 Would it not eventually go to capital expenditure on railways?—It might do so, but I do not know that it necessarily would, and if it went to capital expenditure on railways, then a certain proportion of it, and only a certain proportion, would need to be expended in this country.

5046 But to the extent to which he had to spend it in this country on rolling stock or on material for the railways, London is the place where it would be wanted?—Yes, to the extent to which the surplus balances are expended in railway material, London is the place where it would be wanted, certainly.

5047 And to the extent to which it went to the redemption of debt, it would be wanted in London?—Yes.

5048 To the extent of those two demands do you think that the Secretary of State was right to bring it here?—I cannot say that I do, because I do not think when the money was brought over there was the slightest idea as to how it was to be used at all. So far as I am able to discover by looking at the records it seems to me that it was brought to this country without rhyme or reason, and when the money was accumulated here in enormous quantities then only did the office turn round to see what could be done with this money. I do not think it was contemplated that the week-by-week withdrawal was for the specific purpose of buying railway material in case it might be wanted in the future. I do not think that was the intention, although, of course, when the money was brought here it had to be utilised somehow. But if the surplus collections of revenue are utilised in capital works, then a certain proportion will be required in London, and it can be made use of, but that only appears to me to be, so to speak, a way out of a difficulty. Having brought the money here and having to use it somehow or other, perhaps the best way to use it was to expend it on capital works—reproductive works.

5049 We will pass from the question whether the original estimates were justified. Supposing the money to be there could the Secretary of State or the Indian Government have employed it for any purpose more useful to India than either the reduction of old debt or the avoidance of new debt?—No, probably not.

5050 If they had at once employed it for either of those purposes you would not have criticised their action?—No, if the money had been employed immediately for those purposes, but debt cannot be redeemed at a moment's notice. The action which our Chamber of Commerce took was to press upon the Government the desirability of expending some of the surplus accumulations on railway construction. That course we took on several occasions. Of course, we do not in Karachi have the knowledge of the moment at which debt can be redeemed but we do know, or we think we have some idea, when money ought to be spent on

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capital works, and when we saw large accumulations, the action we took was to press for the utilisation of that money on capital works as being the best way to make use of it

5051 When you and I both just now made use of the expression that if the Secretary of State had been able to use this money immediately you would not have greatly criticised, you would not press the word 'immediately' too hard, would you?—No

5052 You mean within a reasonable time?—Yes, but in view of the figures in my note I might say that three or four years, or four or five years, was not a reasonable time

5053 Your real complaint on this matter, given the existence of the high balances and the fact that they could not be or were not used at once in the way stated, is that they were loaned out on the London money market instead of being loaned out in India?—Yes, in short, that the best use was not made of the money

5054 The best use in what way, the best use from the point of view of earning interest, or from the point of view of the general advantage to India?—Both

5055 You think a higher interest could have been earned in India?—I am quite certain it could

5056 Do you hold that opinion on an average of the whole year?—Yes, certainly

5057 Taking account of the fact that you might only be able to employ the money in India for a small portion of the year?—Small sums of money might be utilised through the whole of the year, but very large sums of money could not be utilised through the whole of the year. Past experience has not led the Indian money market to expect that these enormous sums of money will be available, and it is not to be expected that in any year when a large amount of money is suddenly thrown at the money market in India it can receive it or make use of it. Even the London money market broke down under those circumstances, no securities could be produced, and the money had to be given to bankers on deposit without securities, this happened even in London, and it is not to be supposed that India could swallow such large sums of money unless it had been the habit for many years to place this money at the disposal of the Indian money market. If the money was regularly made available in India I have not the slightest doubt that means could be found for making use of it

5058 I think you formed a special objection to the loan to bankers in England, or is your objection there merely a general one to loaning the money in London at all?—A general objection. I do not intend my note to be any reference to individual borrowers in any way. If the money is lent, of course I assume that it has been lent to the best borrowers and to the best advantage. I am only objecting to the whole principle

5059 Does that apply to what you say in paragraph 10 of Appendix XXI (page 553)? At the end of paragraph 10 you mention one particular house to which loans were made?—Yes

5060 That is merely an illustration, you have no special criticism to make?—No

5061 Suppose these balances had been retained in India, I understand from what you have told me there were two methods by which you would have used them, one was in loans to the banks and other borrowers, and the other was in railway development in India?—Yes

5062 Railway development in India, I suppose, would have caused a corresponding increase in the Secretary of State's expenditure at home?—Yes

5063 And to that extent would have justified additional remittances to this side?—Yes

5064 In paragraph 12, Part I, of Appendix XXI (page 553) you say 'Remembering that the Indian Paper Currency and Paper Currency Reserve are under State control and therefore easily available to Government in times of grave national emergency, I am of opinion that the Government of India's floating cash balance ought, in the interests of economy, to be kept down to a maximum of 10,000,000.' What is the meaning of the reference to the Indian Paper Currency and Paper Currency Reserve in that connection? Do you mean that the total currency reserve should be diverted to other

purposes besides the maintenance of currency?—In times of grave national emergency, yes, certainly, in exactly the same way that the Bank Charter Act has, in times of grave emergency, been suspended in this country, and issues of bank notes have been made against which the securities were not held which were required under the Act. In the same way, in times of grave national emergency, no doubt paper currency could be issued in India against which the securities which are required under the Paper Currency Act would not be held. In other words, paper currency might be floated to some considerable extent in times of national emergency without any security except the credit of Government

5065 (Sir Robert Chalmers) If I may interrupt, is it the fact in the case of the Bank of England that there has been any issue without anything at the back of it?—I think practically nothing except the credit of the Government

5066 That is your belief, is it?—I think so, yes

5067 You do not take the view that it is the absence of gold and the deposit of securities which must be utilised in those circumstances?—The reason for the note issue is the absence of gold—the scarcity of gold

5068 Instead of gold, would you not agree that in those cases the action contemplated has been to deposit securities in lieu of gold, but still securities?—Yes, it may have been so contemplated

5069 It is not an issue with nothing at all behind it?—I think it has been

5070 (Chairman) Does it not occur to you that at such a time as you have spoken of, instead of there being an increased demand for paper currency paper currency might be coming in for encashment?—It probably would in some circumstances

5071 But you would take power to refuse encashment?—Yes, I think it might be done in times of grave national emergency. Supposing the metallic supply of currency runs out or could not be got hold of—suppose it was hoarded or disposed of in some way to cause the Government embarrassment, I think the Paper Currency Act might be suspended in a time of grave national emergency till the crisis was got over

5072 In forming your view as to what balances the Government of India ought to keep, you are influenced in part by the fact that there is a reserve against the note issue which you think might in a crisis be made available to supplement any deficiency in the balance?—Yes

5073 Of the total balance of 10,000,000 which you suggest, you propose that 3,000,000 might be kept in London, leaving 7,000,000 in India?—Yes

5074 Will you tell me how you arrive at all three of those figures, by what process of calculation or reasoning do you arrive at the fact that 10,000,000 is sufficient in the whole, 3,000,000 in London and 7,000,000 in India?—Do you mean the proportion of three to seven?

5075 And the total?—The total of 10,000,000 I have arrived at because on former occasions the Government of India's cash balances have been down to that figure without disaster

5076 And the proportion?—The proportion is on the same principle. The Secretary of State's balances have been down very nearly to three millions. I think in years gone by the usual figure used to be about four millions, it was three and a half to four or four and a half millions. I think that used to be the Secretary of State's balance many years ago

5077 (Mr Gillan) Will you give us the years to which you refer?—Do you mean the Government of India's balance being down to 10,000,000?

5078 Yes?—I will give you the exact dates (see Qu 6031)

5079 (Sir Robert Chalmers) As regards the balances in London, about what amount do you think at the beginning of each quarter the Secretary of State has to pay out for dividends? Would it be practically three millions for that precise purpose?—For dividends on the guaranteed State railways?

5080 All the dividends that fall to be paid by the Secretary of State here in London. Is it about three million pounds that has to be paid at the beginning of

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each quarter?—It is a large sum, yes I think it is approximately getting on for that

5081 And therefore that would swallow up the whole of your balance straight away?—If there were no money coming in, yes

5082 (*Chairman*) In the case of the balance in India, do you draw your 7,000,000l from a comparison of the lowest balance which they have held with safety?—Yes

5083 Are you aware that the Government of India have from time to time carefully gone into that matter to consider what balances they should hold?—I am not aware, but I hope so

5084 We have had it in evidence, I think, that they have examined the needs of their different treasuries, and the calls made upon them, and they have fixed their figure—which is much higher than yours, it is 12½ millions on the 31st March—with a view to the actual needs. Are you prepared to challenge their opinion from your own knowledge of what they require in district treasuries or in their headquarters treasuries?—I am not prepared to challenge it, no I do not know what enquiry has been made or what figure has been arrived at I have never heard of this figure of 12½ millions before. However, 12½ millions is nearer to 10 millions than the 30 millions or the 27 millions which have been held recently

5085 It corresponds with the seven millions, it is the balance in India?—Yes Mr Gillan asked me the year I will give the exact year I cannot put my finger on it at this moment, but I will give the years, as I have all the balances taken out for 10 or 12 years

5086 You say in paragraph 14 of Part I of Appendix XXI (page 554) "With regard to the 10½ crores " cash balance in India, as much of this as possible should " be placed at the service of the Indian money market, " just as is done by Government in England." What exactly do you mean to convey by that?—I mean to convey by that that I understand in this country the Government balance is kept at the Bank of England

5087 And that the Indian balance should in the same way be kept with the Indian banks?—Very much more freely than the Indian banks, to a very much larger degree than at present.

5088 Contemplating as you do a much larger amount of money being left with them, do you intend that they should have its use free of interest, or do you propose that they should be charged with interest?—I think that negotiations might be entered into I do not know why the banks should receive these favours free of charge

5089 You intend that the banks should lend the money out again for the benefit of trade?—Yes

5090 What sort of rate should the Government charge—bank rate, or something below bank rate?—I should only suggest that they must charge as much as they can get It is very difficult to say what the figure would be It would vary considerably I heard of banks this year in the last cold weather paying as much as 7 per cent for money, and I myself placed money with banks this cold weather at 5 per cent

5091 When you say in your memorandum that the balances kept with the Presidency banks should be considerably increased, you do not mean on the present terms?—No, not necessarily on the present terms

5092 You say "The withdrawal and retention in " the Government treasuries of vast sums of cash " arising out of the customary collection of the Indian " revenues contributed materially to the severe " seasonal tightness of the Indian money market," paragraph 14, Part I, Appendix XXI (page 554)?—I think so undoubtedly

5093 That is specially the case, is it not, because the pressure on the Indian money market for trade purposes comes at the same time as the major collection of revenue?—Very much at the same time, yes

5094 And that is unavoidable, is it not?—I am not quite certain, but I believe that the Government collect their money at this period because the crops are being sold, and there is plenty of money available, and it is a convenient time for Government to collect its revenues

5095 (*Sir Robert Chalmers*) They are mainly land revenues?—Yes, mainly land revenue.

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5096 (*Chairman*) But your desire would be that they should hold it as short a time as possible and return it into circulation through the banks as quickly as possible?—Yes May I, in connection with the previous question, point out that in the explanatory statement prepared by the India Office in February last in summarising the question of the balances it concludes that "As far as can be foreseen the balance " at the India Office on the 31st March 1913, will be " about half what it was at the corresponding date of " 1912, while there is no present probability that on " the 31st March 1914 it will exceed the amount " required as a safe working balance" (Cd 6619), the clear inference being that in previous years it has exceeded the amount which is required for a safe working balance That is the India Office's own view of the situation

5097 In connection with what you have said as to increased loans to the Presidency banks, do you think that there would be any advantage in the creation of a State or central bank?—I have seen proposals in the "Times" and other papers, but I have not yet been able to see what advantage to India on the whole would arise from the creation of a State bank

5098 Would you be afraid yourself that if one central institution took the place of these three banks the needs of the different districts served by them would get less intimate attention than in the case at present?—No, I do not know why they should

5099 As far as you are concerned you do not attach any great importance to the establishment of a central bank?—No, as far as I am able to understand the proposal which appeared in the press—of course, I do not know how far that is authoritative—it does not appear to me to hold out any advantage to India commensurate with the disadvantages and the risks and dangers.

5100 (*Chairman*) We will go now to the sale in London of Council bills and transfers I observe that you say in paragraph 2 of Part II of Appendix XXI (page 555) that "The first and only object of the " weekly sales of Council drafts was, and should remain, " the provision in London out of revenues collected " in India of the sums necessary to enable the Secretary " of State to meet India's home charges"—I think so

5101 May I take it from that that in your opinion the Secretary of State should sell the amount required to meet his own charges and nothing more?—Yes

5102 You are wholly opposed to his selling for the convenience of trade?—Altogether

5103 For what reason? I assume, in putting that question, that he sells only when it is convenient to him to do so, but in excess of his needs, and that there is a trade demand for those Council bills What is your objection to his selling them?—I think it is outside the functions of Government to undertake international finance, which is the work of a banker, that is my chief reason

5104 If he did not sell, what would happen?—As things are at present, sovereigns would have to be shipped to India.

5105 That would be more costly?—Much more costly than the past sales of the Secretary of State.

5106 Would not sovereigns which were shipped to India at one period of the year have to be shipped back to England at another period of the year?—It is possible

5107 At any rate, to a very large extent?—I do not think so

5108 You think not?—I think not. I think it is possible that some gold might need to be returned at the end of the busy season, but not necessarily

5109 (*Lord Faber*) It would depend wholly, would it not, on the balance of trade between the two countries?—Entirely

5110 (*Chairman*) But taking the conditions of trade in the past few years, is it your experience that if the Secretary of State had not sold in excess of his own needs, and the difference had been met by the shipment of gold to India most of that gold would have remained in India?—I think probably recently some of the gold would have had to have been returned.

5111 If it had to be returned, then there would be a double additional charge on Indian trade?—If the

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gold had been returned there would be a charge on Indian trade, yes

5112 (Sir Robert Chalmers) Of 10s per cent each way?—Whatever the cost might be, wherever the gold was shipped from, I do not consider that it is any part of the functions of Government to expend the public revenues in facilitating private trading by shipping gold about at the public expense. That is my view. There is no doubt that the present procedure is economical from the trader's point of view, but it is a loss to the Government.

5113 (Chairman) Under the practice which has been pursued, gold has not been shipped either way?—Gold has been shipped to and from India.

5114 There has been a certain amount of gold shipped?—Government have shipped back some gold, too.

5115 To the extent to which the Secretary of State has sold in excess of his own needs, that form of remittance has been substituted for the shipment of gold?—Yes.

5116 And to that extent, or to a proportion of that extent, the re shipment of gold has been avoided?—To some extent the re shipment of gold has been avoided.

5117 Has that cost India anything?—Yes.

5118 Will you tell me why and how?—Because every sale which the Secretary of State has made of rupees below gold import point is a direct loss to the Indian revenues.

5119 Then you hold that no gold should be sold below 1s 4½d?—Below gold import point. It fluctuates of course.

5120 When you are speaking of the gold import point are you thinking of the point at which it pays to ship gold from London?—No, not necessarily from London, it may be from Egypt or it may be from Australia.

5121 It often is cheaper, I think, to ship either from Australia or from Egypt than from London?—Yes.

5122 But in your opinion the Secretary of State ought to hold out for some fixed minimum, ought he not?—Yes, I think so.

5123 What is that fixed minimum?—I should put the fixed minimum, so far as sales on behalf of the home charges are concerned, at a shade below gold import point. Possibly on the year that would be about 1s 4½d, sometimes it would be 1s 4d and 1½ annas, that is to say, 1s 4¾d, sometimes it may even drop below 1s 4½d, it may sometimes approach 1s 4¼d, but on the whole, on the average, I should think 1s 4½d would be a reasonable fixed rate to take.

5124 You would fix the rate at such a point as would make him certain to obtain the amount that he wanted himself?—Yes.

5125 And you would never sell below that rate?—No.

5126 Would there not be great difficulty in getting at all a level point throughout the year?—I cannot see any reason for the difficulty.

5127 I take it that the demand is much greater at one period of the year than at another?—Undoubtedly.

5128 Would the greater demand come in the second period of the year?—In the second period of the official year, yes.

5129 Supposing that, finding that the demand was slack and the rates therefore low in the first part of the year, he had offered very little, could he be quite certain that he would be able to cover that in the latter portion of the year?—I think so.

5130 We come again to your original criticism, I think, that he is unduly cautious?—Very much so in this respect.

5131 In your opinion, he might take much greater risks than he does?—I think that the process of auctioning might very well be abolished, and if there were a brass plate on the door of the India Office saying that rupees are always obtainable here at 1s 4½d on any day of the week and at any time, that would meet the case probably. Of course there are practical difficulties. The Treasury balances in India would have to be sufficient to permit of the sale of rupees in this way, but it seems to me that there is no reason why the rupees should be auctioned, or why they should not be available at all times at a fixed rate.

5132 Is not the auction a way of obtaining the best price possible?—Yes.

5133 And is it not the best way?—Not at present, because the present auctions are conducted on an incorrect minimum. They are being sold at present, for example, below 1s 4d, which in my opinion is merely throwing money away.

5134 Supposing the Secretary refused to sell until he got a higher figure, he would not sell at all, would he?—I think he probably would.

5135 You think he is so far in the position of a monopolist that he can practically fix his own price within the limits which you have named?—Yes, I feel quite certain of that.

5136 Your criticism rests upon that assumption, that he really commands the market, and can make his own price?—Yes.

5137 (Mr Gillan) May I ask what you think would happen in a famine year?—I think that portions of the Treasury balances and of the Gold Standard Reserve would be shipped home in sovereigns.

5138 There would be no drawing of Council bills?—Possibly not. You would ship home probably some of the revenue collections in the form of sovereigns.

5139 (Chairman) Have you considered what effect the fixing of a rigid rate of that kind might have on the balance of trade?—I do not think it would have any effect at all.

5140 You do not think that the course of trade is affected by the rates at which these transfers can be obtained?—Not on the whole. They may produce temporary fluctuations, but on the whole, taking the year's trade as a whole, I do not think it has the slightest effect whether you make it 1s 3½d, 1s 4d, or 1s 4½d.

5141 To what length do you carry that? Supposing instead of 1s 4d the Secretary of State said, "I will not sell below 1s 6d," what then?—I think he would get 1s 6d.

5142 Could he get 2s?—I think so.

5143 Practically, in your opinion, the Secretary of State can fix the rupee at any value he likes, and can enforce it on the market?—Any reasonable figure. You cannot carry it to an absurdity.

5144 (Lord Faber) He could not carry it to a price at which you could ship gold?—Under the existing legislation by which the sovereign is legal tender for 15 rupees he could not at present sell it at higher than 1s 4½d, because, according to the present legislation, sovereigns are legal tender for the equivalent of 15 rupees. That would, of course, need to be altered, and the sovereign would have to be legal tender for 10 rupees if it were contemplated to force the rupee up to 2s.

5145 (Chairman) But apart from that, you think he could force the rupee to any price he liked by merely refusing to sell it at a lower price?—Yes, any reasonable price.

5146 How does the experience of 1893 bear that out? I put it to you that in 1893, when the mints were closed, the Secretary of State was urged to sell no Council bills cheaper than 1s 4d?—Yes.

5147 His experience was that sales at that price were impracticable, but for six months he refused to sell at lower than 1s 3½d. The maintenance for a time of this minimum converted the normally favourable balance of trade into an unfavourable one?—Temporarily.

5148 At 1s 3½d the Secretary of State could only sell trivial amounts of bills?—That is so, the reason being that the Secretary of State flooded India with tons of silver rupees at the time when the mints were closed, and consequently there were more rupees available than anybody wanted, and the Secretary of State had to wait for several months before any demand for more rupees arose.

5149 Meanwhile he had to borrow nine millions to make good the shortage in his receipts in this country?—Yes.

5150 Then he resumed the sales, but at a lower price?—Yes.

5151 You think there is no lesson to be learnt from that except the fact that too many rupees had been coined immediately before the closing of the mints?—Yes.



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5152 (*Sr Robert Chalmers*) What did the exchange go to later on? Was it 1s 0½d?—It dropped in those days before the closing of the mints.

5153 No, I mean after 1893. It was about 1s 0½d, was it not?—A shade below 1s 1d, as my memory serves me.

5154 That was some time after the closing of the mints in 1893, when there was nothing special in the way of extra additions to the currency?—The year that exchange fell below 1s 1d was, I think, about 1894, but I am not quite certain.

5155 (*Chairman*) Assuming that the Secretary of State adopted the policy which you suggest, the effect would be very largely to increase the shipments of gold to India?—Yes.

5156 What do you think would happen to the gold when it got there?—I think as the years went on more and more of it would pass into circulation and be used exactly as gold is used in every other country.

5157 That would be a gradual process?—Yes, a gradual process.

5158 In the meantime what would happen to the gold? I suggested to you that the major portion of it would have to be shipped back, but I think you do not agree with that?—Some of it might have to be shipped back, yes. It would depend on the balance of trade.

5159 And the rest, until gold largely increased in circulation, would be where, would it be in hoards, or would it be returned into Government treasuries, or what?—I think at first it would probably accumulate in the Paper Currency Reserve, and a certain proportion no doubt would be hoarded. I think the hoarding would diminish year by year.

5160 In subsection (b) of paragraph 5 of Part II of Appendix XXI (page 556) you say "As soon as a sum equivalent to the total of the home charges had been realised, not another rupee should have been put up for auction until the proportion of sovereigns in the Indian currency had exceeded public requirements." What exactly do you mean by that? Do you mean until the Paper Currency Reserve was overloaded with sovereigns and insufficiently supplied with rupees to meet possible demands?—Yes.

5161 Has there not been rather more than enough gold in the treasuries and Paper Currency Reserve in India of late?—The rupee portion of the Paper Currency Reserve sunk to a low figure last year.

5162 Then take the reserve treasuries in India. On March 31 last there was nearly 20 millions of gold?—Yes, I believe there was.

5163 Would you consider that when 20 millions of gold had been reached the public requirement was exceeded?—No, not necessarily.

5164 Have you any measure which you could indicate to us of what figure the public does require?—I think the measure is the demands of the banks who are financing trade. There have been several occasions, I think, when the supply of rupees has run short, especially in Bengal, and when the banking community were calling out for more rupees. When that stage is reached it is evident that rupees are in demand.

5165 That stage never ought actually to be reached. The Government of India ought to foresee the difficulty before it arises and always have rupees enough?—Yes, I think so.

5166 They must act in prevision of such a demand and not merely coin rupees after it is found that they cannot supply them?—Yes, I think so, although I believe the usual practice in this country is for the banks to make demands for token coinage, and when the banks make demand then the mint authorities coin the small change and issue it. In the same way, when the banks make demands for rupees in India then the Government might issue rupees.

5167 The position is not quite the same in India?—Not quite the same.

5168 Because you do not have an institution like the Bank of England?—It is not quite the same, but it is very much the same.

5169 When there is as much as 19 millions of gold in the reserves in India and in the treasuries is not your condition met that the proportion of sover-

eigns in the Indian currency has exceeded public requirements?—Not necessarily. There is no reason why the entire Gold Standard Reserve should not be held in sovereigns, and very nearly the whole of the Paper Currency Reserve held in sovereigns, and nearly the whole of the balance in the Government treasuries held in sovereigns, there is no reason why the entire currency should not be sovereigns.

5170 We are talking of the public requirements for sovereigns?—Yes.

5171 I am not now talking of the Gold Standard Reserve or the Paper Currency Reserve, but if the number of sovereigns or the amount of gold in the Treasury stands at a very high figure, is not that because the public has paid in sovereigns and not drawn them out?—Not necessarily. It may indicate that the public are using sovereigns as currency and that Government revenue is collected in sovereigns, and that the trade of the country is carried on by means of sovereigns. It does not necessarily mean that there are too many sovereigns, or that the proportion of sovereigns in the currency is unduly large, it does not necessarily mean that.

5172 What do you mean by saying that the Government should sell no more bills until the proportion of sovereigns in the Indian currency has exceeded public requirements?—I mean until the banks and the public are demanding more rupees.

5173 Until the Government are unable to supply the demand for rupees?—Yes.

5174 And short of that point arising you would go on accumulating gold?—Yes. May I correct paragraph 5, sub clause (c), of Part II of Appendix XXI (page 556)? The last portion of the paragraph reads "but not at a lower rate than specie point for gold imports—then 1s 4½d." I should like to make it read "then about 1s 4½d." because, of course, the gold point was not a fixture, and I do not mean to imply that that figure indicates a fixed figure. It is an approximate figure.

5175. I am coming now to your conclusions in this section, paragraph 7. You say that it is only by the means which you have proposed that the India Office's noxious interference with the foreign exchanges, imports of gold, local discounts and general price levels can be checked. As regards foreign exchanges, the object of the Government of India, I suppose you would agree, has been to maintain the exchange at a stable point, as stable as they could?—Up to a certain point, yes. This policy has not been carried sufficiently far.

5176 Then your objection is not to the object, but you say that they have not carried out the object out effectively?—They have not carried it out to its conclusion, that is to say, they have not secured the highest obtainable rate for the rupees which they are selling.

5177 Is it your opinion that it is India's interest to have a stable exchange?—Yes.

5178 Has that been secured by the system which has been adopted?—Speaking generally, yes.

5179 Could it have been secured in any other way except by large gold imports?—I do not quite follow.

5180 Suppose the Secretary of State had not sold Council drafts to the extent to which he has, the exchange would only have been maintained by the export of gold?—Yes, and always at gold point. We should not have had exchange down below 1s 4d or at 1s 4½d; we should have had exchange regularly and steadily in the neighbourhood of 1s 4½d.

5181 And that, I think you have already said to me, would be more costly to the Indian trade than the present system?—No, not costly to Indian trade as a whole.

5182 But more costly to the people who had to make the remittances?—It would be temporarily to those people who are interested in the import trade of India an advantage to get as high a rate of exchange as they could, but it is only a temporary advantage. It is not a permanent advantage. It is an advantage from day to day and week to week. If I am a Manchester importer, for example, it is an advantage to me week by week to get as high a rate of exchange as I can, and if I am an exporter of produce from India then it is an advantage to me week by week to get as low a rate of exchange as I can, but that is not a

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permanent advantage or a permanent loss to India. It is only a temporary matter from week to week or from month to month.

5183 On the general balance the advantage of the community is to have a stable exchange?—Yes, a stable exchange. I do not think it makes any difference to India whether it is stable at 1s 3d, 1s 3½d, 1s 4d, or 1s 4½d, so long as there is a fixed exchange.

5184 You have said quite clearly, and very reasonably from one point of view, that you do not think it is the business of the Government to be managing the foreign exchange?—Not at all, it is most objectionable.

5185 Do you, apart from that, make any criticism of the action of the Secretary of State? I think you do, but I want to get it quite clearly?—In regard to the sale of Council drafts?

5186 Yes?—My only objection in this connection is that the Secretary of State is making a rate of exchange.

5187 And that he is not making it as good for himself as he might?—That is exactly the case.\*

5188 (Lord Faber) I only want to ask you a very few questions. We have heard a good deal about the big balances at home, and, granted that they are too big, I suppose you think that that is more a question of expediency than a question of principle? It depends, in fact, upon the failure of the monsoon, or two monsoons running, or upon the inability of the Government to pay for material for railways which had been contracted for but which had not been delivered, and, therefore, the balance has swelled in that way. You would agree that it is more a question of expediency and not of principle, it is not a big question in itself?—I am not quite sure whether I

## NOTE BY MR WEBB

\* The following extracts from the press in India with regard to the Secretary of State's sale of India (Office) Council bills on the 12th February 1913 speak for themselves—

1 "As was to be expected, in view of the happenings in the local money market, there was on Wednesday a slack demand for Councils, with a consequent decline in the minimum rate, at which these were let go, to 1s 4d for bills, and 1s 4½d for telegraphic transfers, tenderers at these rates receiving seven per cent of their requirements. The total taken in bills was Rs 15,10,000, and in T T Rs 84,90,000 and Rs 100 lakhs will be again on offer next week. The two matters for comment in this allotment are the heavy proportion of T T, Calcutta alone taking Rs 44½ lakhs in view of the comparative surplus of money here, and the fact that the Secretary of State continues to keep his offerings at Rs 100 lakhs, in view of the diminishing rate."—Calcutta commercial correspondent in the "Pioneer" of 17 February 1913.

2 "The Secretary of State has sold 100 lakhs at the periodical bidding on Wednesday of which 85 lakhs were allotted in telegraphic transfers. The India Office has accepted one thirty-second less and has not reduced the amount of Council bills, which seems to cause some irritation among Exchange banks."—"Times of India" (Bombay), 15th February 1913.

The probable explanation of the Secretary of State's action in thus artificially depressing exchange, is given in the following letter of the 13th February 1913, to the "Sind Gazette" (Karachi)—

3 "May I point out to your readers that the Secretary of State for India has now stopped the further importation of sovereigns into India by the simple expedient of artificially forcing down exchange. Yesterday the India Office sold 15 lakhs of rupees deliverable in Calcutta at 1s 4d each. Of course, nobody can afford to import into India sovereigns which will only command Rs 15 each in India, when, by giving those sovereigns to the Secretary of State for India in London, fifteen rupees can be obtained from the Treasury at Calcutta or Bombay or Madras."

The Secretary of State has not the slightest need for these extra sovereigns in London. Indeed he holds over 90,000,000 of India's money there already. But by this simple device of selling legal tender rupee tokens at below gold import point, he prevents India from receiving in gold the sums that are due to her in payment of the balance of trade in her favour.

Here we have yet another example of how the India Office manipulates India's exchange and currency, not—let it be carefully noted—for the benefit of India, but solely for the benefit of a section of the London money market.

It is exactly the same trick that used to be played centuries ago to prevent this or that country from getting the precious metal. That the India Office should, in this twentieth century, stoop to a repetition of the practices of the Middle Ages in this connection is a striking comment upon the way in which modern London thinks it is able to govern modern India. The India Office is making a sad mistake.

follow the drift of the question. My view is that there ought to be no big balances, but if there are big balances they ought to be used in India and not in England, they ought to be used first in India rather than in England. If by unavoidable circumstances large balances are accumulated in England, then they must, of course, be used in the best possible way. In those particular instances I do not think that those balances have been even used in the best possible way, because they have been used for short period loans rather than for long period loans.

5189 Would you change the date of the budget? It would enable the Chancellor of the Exchequer in India, so to speak, to budget nearer the mark if the budget was made after the monsoon?—I do not think so. I think the monsoon has got to come into every year, whether it comes early or comes late.

5190 Yes, but in one case, as I understand it—I may be wrong—you budget before the monsoon, and in the other you budget after?—The object of the budget is always to prepare a statement for the year to follow. It is an estimate of your financial arrangements for the year to come, and, whether you make that forward estimate in the month of March or in the month of September, in either case you would have the monsoon coming into the 12 months, and it would be equally uncertain, because you would be calculating for the coming monsoon of the next year.

5191 (Chairman) If your financial year began on October 1, would not the Finance Department know much more of the prospects of the year than when it began on April 1?—They would know no more about the year to come, but they would have a very much better idea of the year which had just passed.

5192 But would not they have of the year to come? Would not they by the month of October know what the results of the one monsoon had been, which was the more important one?—Yes, in that respect they would know what closing balance they would be likely to have.

5193 (Lord Faber) They would know whether India was likely to be prosperous in the coming year owing to a good monsoon having passed?—Yes.

5194 Are you aware, touching the question of the big balances again, that for the first time for a good many years certainly India is not raising this year any loans at all? They are going to take it out of the budget balances.—I am very glad to hear it.

5195 As you know, they borrow generally four or five millions a year at home?—Yes.

5196 They have not done so this year, it is coming out of the balances, or, at least, so we are informed?—That is a policy which I think should have been adopted some time ago.

5197 Do you think that if the Secretary of State in London lent for longer than five weeks, say for three months, he would get materially better terms, bearing in mind the great factor that the Secretary of State only lends on very first-class floaters in London? What I mean is this. Given that the Secretary of State wants this particular kind of security, would he ever be able to get much better rates than he does now for three or five weeks' money? Is it not rather the class of security that makes the loan so difficult to put out?—I think a long period loan must of necessity command a better rate than a three weeks' loan, no matter what the security is. It stands to reason that you can make better use of money which is in your hands for three months than you can of money which is in your hands for three weeks. How much greater the advantage would be is a matter which I am not sufficiently expert to give an opinion on, but you would get an advantage undoubtedly.

5198 At the moment, as the Chairman says to me, perhaps you would pay more for the three weeks' loan than you would for the three months' loan?—That is possible.

5199 Taking it for granted that part of the big balance should be lent in India, would you tell us what your own mind is about the possibility of lending it—on security, of course? I think you perhaps agree that security should be demanded in all cases, if not, I should like to hear your reasons for not demanding it, but, granting that, do you think you could lend out

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these big balances which are sometimes lent out on behalf of India in this big market of London?—I do not think it could be done with the same ease with which it can be done in this country, but, bearing in mind that my view is that the large balances ought not to exist, I think there would be no difficulty in disposing of the small balances which might be accumulated in the Government treasuries.

5200 Do you think that when the Indian Government is lending out money in India they should lend by tender? It is rather a good principle, is it not?—I should think so. I think it is a good principle, yes.

5201 One more question which interests me very much, the exchange question. I gather that you only want the Government to sell enough bills to give them the money which they require for home charges?—Yes.

5202 You do not want them after that to interfere in the trade of India at all, you want the trade balance between the two countries to be regulated by gold exported or imported as the balance of trade may demand?—Yes.

5203 As, in fact, is done now between other civilised countries, such as America and England, and England and Paris?—Yes.

5204 (*Su Robert Chalmers*) As to a State bank, do you think there is any organic demand for a State bank in India?—No.

5205 One other question on a matter which was touched on in your examination-in-chief, and that is the paper currency. I am referring to paragraph 12 of Part I of Appendix XXI (page 553). Do you really contemplate enlarging the paper currency without either metal or securities behind the additional notes?—No.

5206 What do you propose to do?—With regard to the paper currency, to continue as at present.

5207 In answer to the Chairman, I gathered that you said that in time of stringency or difficulty you would set the printing press to work and you would print notes, putting into the reserve neither securities nor metal?—In periods of grave national emergency, yes.

5208 You would?—In periods of grave national emergency.

5209 But that paragraph of your memorandum on the subject of paper currency proposes that you should have your normal balances reduced to your 10 millions in view of the fact that you have got a certain reserve in hand for paper currency?—Yes.

5210 Is that reserve, in whatever form it is held behind the notes, too big, in your judgment?—The metallic proportion of the reserve?

5211 Metallic or securities. I am not entering into the proportion, but do you think that the total reserve is too big at present?—Not at all. The total reserve is exactly the same as the amount of the note issue.

5212 You would be prepared, then, to reduce that, and to reduce your Treasury balances, because you could draw away from behind the notes something, metal or securities, which is there?—In case of emergency, yes.

5213 But you would be doing that on a normal basis, would you not, according to that paragraph, you would be calculating on normal circumstances and reducing your Treasury balances?—Yes.

5214 Do you think that is quite sound and safe?—For the Government of India, yes.

5215 You would, therefore, *ex hypothesi*, be reducing the security behind the notes as they stand to day?—Yes.

5216 And you would be doing that in normal times?—Yes.

5217 Coming to paragraph 3 of Part I of Appendix XXI (page 550), would you be so good as to turn to the figures which Mr. Abrahams put in, of which you have a copy, I think. It is Appendix No. II. Will you look at page 81 of that?—That is Statement E.

5218 That is the one. Do you see the totals for the four years in the last column but one, that is what I am going to ask you questions on?—Yes.

5219 You point out that nearly 20 millions more than was actually necessary in four years has been

collected, and you put that down to heavy taxation?—Yes.

5220 Is that quite supported by that page in the returns at which you are looking? Under the heading of "Net Revenue" you will see that the third item is "Taxation," which accounts for just over two millions of the 20 millions for the four years?—Yes.

5221 Therefore, strictly speaking, the taxation has resulted only in two millions of the total amount of 20 millions to which you referred in that paragraph of your memorandum, that is so, is it not?—Yes, that would appear to be so.

5222 And the great factors in making up the 20 millions are "Opium, 7,310,457l.", and "Commercial undertakings (including railways)," which is over 7½ million pounds?—Yes.

5223 Those big items are not taxation, there is an amount of about 15 millions out of the 20 millions that does not come from taxation?—Yes.

5224 Who do you think paid the extra amount on the opium, amounting to 7,310,457l.? Did the ryot or the inhabitants of India pay it?—Yes.

5225 Do you think so?—Yes.

5226 Do you think the incidence was on anybody in India?—No, not the ultimate incidence.

5227 Is it not a question of price? Was it not paid for by the Chinaman?—Yes.

5228 So that that was not a burden on the people of India?—No.

5229 Taking the commercial undertakings, including railways, which resulted in an excess amounting to 7½ millions, that is mainly railways, as I think we quite agree?—Yes.

5230 How would that result? Is not that mainly between the ports—the produce going out and imports coming in?—Goods traffic and passenger traffic. The passenger traffic was a very large proportion, in fact it is the major proportion, of the Indian revenue from railways.

5231 You would put this down to passengers and not to goods, would you?—No, it is probably, in the main, goods, I should think.

5232 It would be, in fact, prosperous trade in and out?—Yes, I should think so.

5233 Therefore, would you quite hold that the 20 millions represents over-taxation of India, if you look at it in detailed examination, even to this extent?—No, it would appear that the whole of the 20 millions is not altogether over-taxation.

5234 That is all I meant?—A large proportion of it is not over-taxation, it is revenue collected in excess of expenditure. That is how it is described in my note, "Revenue collected in excess of actual expenditure." Those are the words.

5235 The excess of expenditure arose not specifically from what is called taxation?—Only a proportion of it.

5236 And that proportion about 10 per cent of your 20 millions?—A small proportion, yes.

5237 Will you turn to Appendix II, Statement B, on pages 74-5?—Yes.

5238 Taking the total closing balance in the Budget for 1913-4, that stands at 16,639,100l., does it not?—Yes.

5239 That is a reduction from the actual closing balance of 1912-3 of about 11 millions?—Yes.

5240 Similarly, going back a year further, there is a reduction from 30,669,702l. to 19,589,871l.?—Yes.

5241 And in the year before a reduction from 30 million pounds odd to about 21½ millions?—Yes.

5242 And in the first of the three or four years you have taken there is a reduction from 25,074,522l. to 17,735,242l.?—Yes.

5243. Those figures indicate a very definite desire on the part of the Government of India to reduce their balances—to use their balances in some form or other. They have actually reduced their balances by very substantial amounts throughout the period of four years, is not that so?—It appears, as far as I am able to see by the figures, that each year the Government have estimated a smaller balance, but actually they collected a much larger one.

5244 I quite agree, but having collected the still larger one, they sought with great anxiety always in

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the next year to reduce their balances and not to keep them so high as they have grown to be, as a matter of fact?—So the figures seem to indicate

5245 What use do you suppose they have made of those sums which they took out of their (as you say) inflated balances? What use did they actually make of these moneys? May I suggest the answer? Will you turn to Statement A in Appendix II, page 72, which deals with the receipts, disbursements, and balances for the year 1912-3. If you will look under the head of "B Receipts," you will observe "Loans issued, 5,000,000," that is item 3?—Yes

5246 Now will you look under "C disbursements." You will see the item "Capital outlay on railways, irrigation works, and Delhi"—Yes

5247 That is over 11½ millions, is it not?—Yes

5248 The next item is called "Discharge of debt," and it is 6½ millions?—Yes

5249 Adding those two items 9 and 10 together, they amount to 13 millions?—Yes

5250 That is capital outlay in discharge of debt. We began with the figure "loans issued," which is five millions, consequently, there was 13 millions that had been expended which had possibly, would you say, come out of balances?—It appears on the face of it that nearly 12 million pounds was expended in 1912-3 on railways, irrigation works, Delhi, and discharge of debt

5251 Over and above the amount of loans issued?—Yes

5252 Now turning back to the page before, page 71, for the year 1911-2, we have a similar sum net over and above the loans issued, amounting to about eight millions. I arrive at that like this. Do you see item 3 "Loans issued, 4,188,400."?—Yes

5253 Then I come down to items 9 and 10, and I add those together, and make them about 12 million pounds, which makes a difference of about 8 million pounds?—Yes, so it appears

5254 For the year 1910-1 you find a similar balance of about seven millions, you can take that from me. For the purposes of that question I take items 3 and 8a together?—That is six million pounds odd of loans, and about 13 million pounds of expenditure

5255 That leaves about seven millions, that would show that there has been great expenditure, and that the expenditure must have come from some place other than revenue or capital?—Yes

5256 And the expenditure with which we have been dealing is net over and above the loans issued?—Yes

5257 In a previous question I drew attention to the steady amount by which the (as you would say) inflated balances had been reduced?—Yes

5258 They have in fact been applied to capital purposes or the discharge of debt?—Some portions, yes

5259 To the extent which we have mentioned?—Yes, apparently

5260 And that sort of purpose is one that commands your approval?—Yes, certainly

5261 Coming to Part II of your memorandum (page 554), is the Government of India in the ultimate analysis in a different position from any individual who has money to get?—No

5262 What does an ordinary individual do having to remit money from India to England? Does he stand out for 1s 4½d?—Do you mean an ordinary individual?

5263 Yes?—It is no use standing out for it, because the Secretary of State undersells him every time. There is no reason why he should not get 1s 4½d except for the Secretary of State

5264 You think that the Secretary of State is in such a very strong position as to be able to dominate everything?—I do

5265 Is the exchange of India essentially on a different footing from, we will say, the exchange between London and Paris?—No

5266 Dealing with France, taking the par of exchange which we have agreed to be equal to 25 francs 22 centimes, do you think that an individual or a big corporation should always stand out for something over that parity?—No. The circumstances are not the same, though, because as a rule the balance of

trade is very much in India's favour, and consequently India, as a rule, has large sums which have to be remitted to India. As things stand at present there is no way of remitting those sums except by either shipping gold or purchasing the Secretary of State's Council drafts. If you ship gold, the exchange stands at 1s 4½d or 1s 4¼d, and there it would nearly always remain were it not that the Secretary of State comes in and sells rupees at 1s 3¼d for no reason whatever

5267 Have you any support in any country of the world that you can point to for your departure from the general doctrine of exchange?—To what doctrine do you refer?

5268 The doctrine that you should be prepared to get your money across at your own time within specie point, that is the general doctrine. Why should India depart from it?—There is no reason why India should depart from it. If India were worked at specie point the public would have to effect their remittances at specie point

5269 What do you mean by specie point? Do you mean a bit below and a bit above 1s 4d?—By specie point I mean the point equivalent to the cost of importing sovereigns into India. That is what I call specie point

5270 That would answer to 25 francs 33 centimes in Paris?—Possibly

5271 Would you say that a person similarly positioned, dealing in that exchange, should refuse to deal except at 25 francs 33 centimes?—No, because I do not know that the balance of trade is regularly largely in favour of Paris as between London and Paris, but in the case of India the balance of trade is largely, as a rule, in favour of India. It is largely in the one direction in the case of India, and therefore exchange generally, without the interference of the Secretary of State, would always remain in the neighbourhood of 1s 4½d until such time as a change occurred and the balance of trade was turned in the opposite direction

5272 Would you expect to be able to get the rate that you favour at all seasons in the year?—Yes

5273 That is your belief?—Yes

5274 (Chairman) You mean whatever amounts the Secretary of State might require at any season of the year?—Yes

5275 (Sir Ernest Cable) Throughout your evidence you evidently have been in favour of budgeting more closely?—Yes

5276 That would involve, would it not, more borrowing by the Government of India for reproductive public works. He would have to borrow more?—As compared with the recent procedure, yes

5277 With reference to that, do you think they could borrow more in India than they do now?—Yes

5278 At the present rate of interest?—Yes, I think so

5279 You would not think it necessary that they should increase the interest?—I do not think so. I think there is more capital available in India than is popularly supposed

5280 And you think it would come out in larger quantities if required?—I think so, especially if the rupee paper could be used as security for advances from the Government in times of heavy trade pressure. If holders of rupee paper could always utilise that paper to obtain loans from the Government in the busy season of the year I think there would be greater scope and greater demand for rupee paper than there is at present

5281 In your evidence regarding lending out the Government balances you advocated lending not only to the Presidency banks and the exchange banks, but also to firms?—Yes

5282 Of course, there are first class firms and second class firms. You would not suggest lending to any firm?—Oh dear, no, certainly not

5283 Would it not be rather an invidious task for the Government to discriminate between firms?—It is a task that the India Office seems to have carried out most successfully. There are 72 favoured borrowers on the India Office list in the City of London, and I do

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not know why there should not be 72 favoured borrowers on the Government of India list in India. I think I could make a larger list than 72.

5284 Then you went on to say that you thought there would be very large opportunities in India for utilising this capital. Do you wish to include in the purposes for which this capital is to be used, expenditure on local industrial enterprises, or merely on financing crops?—Mainly I have in my mind the financing of crops.

5285 You would not suggest that the money borrowed from Government should be utilised for other enterprise?—Not in private enterprises, no. There are many occasions when improvement trusts and port trusts and municipalities require large sums of money which the Government might place at their disposal if they felt that it was beneficial.

5286 I gathered that you were rather against a State bank?—I am unable to find that the advantages outweigh the disadvantages to India.

5287 I was only going to ask you whether any State bank, which would be looked upon by the masses as a Government bank, would not have the effect on the populace of bringing out hoards on deposit?—It might conceivably do so, yes.

5288 That was one of the things that occurred to me?—The public have an opportunity now of taking advantage of the Post Office Savings Bank in India, and I think the figures show that the Post Office Savings Bank is being used more and more every year. I recognise that it is an argument in favour of the State Bank that it might help to attract deposits from nervous depositors, that is an argument in favour of a State bank, and a sound argument, I think.

5289 (Mr. Gladstone) I gather that you do not think that there would be very extensive opportunities of lending money in India, but that if the Government balances were considerably reduced the sums which would be available would be very moderate?—Yes.

5290 And such as the market would take?—Yes.

5291 With regard to your suggestion that loans should not be limited to the Presidency Banks, we have had it in evidence from the Exchange Banks that they would prefer that the loans should be limited to the Presidency Banks. They would not care to take the loans themselves?—That is a matter in which the Exchange Banks know their business better than I do.

5292 We have had that in evidence. Then if the Government are to look to private individuals to take these loans, would it not be very advisable for them from time to time to issue a moderate amount of short fixed term bearer bonds which would be convenient security with the smallest possible fluctuation?—Yes, I think such an issue might be very useful.

5293 That would be a security which would be popular with private individuals, and which they would be willing to hold throughout the year, and to utilise for loans in exceptional cases?—Yes, I think that would be very useful.

5294 There is obviously an objection to holding rupee paper, which may be expected to fluctuate with market conditions, not, perhaps, to the same extent as Consols do here, but in a smaller way?—Yes, I think such an issue would be very useful.

5295 With reference to paragraph 15 of Part I of Appendix XXI (page 554), sub-paragraphs (a) and (b), have you considered the system followed in regard to the purchase of stores at the India Office for railways and other things?—I know the system, I have some knowledge of the system.

5296 A very large amount of money is involved?—Yes.

5297 And this has to be taken into account in fixing the amount of the balances in London?—Yes.

5298 If railway and other Government stores were purchased and paid for in India, the amount of the Home Government balances might be *pro tanto* reduced?—Yes.

5299 You see no objections to this course being followed?—If for many years the India Office was able to work with a balance of four millions I see no reason why they should not still be able to work with a similar balance, and not require 15 or 18 millions.

5300 My point is that if they had not to purchase those large amounts of railway and other stores and pay for them, that would be put upon the Government of India, who would pay in India in rupees, and to that extent, of course, the balances here might be reduced?—Yes, certainly.

5301 Which policy, I understand, you favour?—Yes, certainly.

5302 I understand your view is that there is no reason why the Secretary of State should do for the Indian trade by excess sales of Council bills what no other Government does for traders?—Quite so.

5303 But is there any other country in the same position as India and England?—Not exactly, no.

5304 Is it your view that the movement of the crops might be left to banks and to traders just the same as it is in the Argentine and Egypt?—Yes, I think so.

5305 But do you think it is possible for the Government to avoid the great responsibility which they now carry in regard to maintaining the Gold Standard Reserve and other matters? Is it possible for them to leave that entirely to what I may call private enterprise?—I think that as soon as a little more gold has flowed into India there will be no necessity for the Government to have anything to do with it. I think the gold standard will be maintained in exactly the same way as it is maintained in every other country, without Government assistance at all. I think that as soon as there is a little more gold in the country there will be no necessity for a Gold Standard Reserve or for anybody to think or trouble or worry about exchange—not the slightest. There will be sufficient gold in the country to provide for export whenever the trade balance turns against India, and in that case there is nothing whatever for the Government to worry about as to foreign exchange or maintaining even the standard.

5306 But during the interval during which that happy state of things is being brought to pass, Government must maintain their responsibility and control?—Yes, I think so.

5307 Therefore, you do not really think that the conditions are the same as in Canada, for instance?—Not yet.

5308 You hope they may be?—They will be, I feel sure, in a very few years. My own view is that they would have been so 10 years ago had it not been that the gold standard policy has not been carried out.

There was a Committee which sat in 1895 which reported exactly what should have been done. Had the Fowler Committee's policy been carried out there and then on the spot, the gold currency and standard might have been effectively established many years ago. That is my view.

5309 I think with regard to the balances your view is that a total of 10 millions as a minimum balance is sufficient, of which seven millions should be held in India and three millions in London?—I said so.

5310 And I think you said you based those figures upon some actual returns for a particular year which you would let us have?—Yes.

5311 I believe Sir James Westland—I suppose it is 15 or 20 years ago—fixed upon 8 crores as the minimum balance in India?—I do not know.

5312 That, of course, has not been worked to, because it is said, and truly, that India has developed enormously, the number of treasures has greatly increased, and the trade of the country, and so on, and therefore that is a figure that has been treated as obsolete. You do not hold that view?—I do not know at all. I did not know that that figure had been fixed on or discussed at all. I was not aware of that fact.

5313 Do you think that in the management of treasures, sub-treasures, and district treasures the Government do not take sufficiently into account the modern improvements in railway facilities and telegrams, and so on?—I have not gathered any impression that the treasures are badly managed.

5314 But I gather that your view is that the balances are too large?—Yes, it is very much easier now by means of telegrams and railways to shift money from treasury to treasury than it was fifty years ago.

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[Continued

5315 You have not yourself made any careful examination of those treasures—the daily transactions and the maximum and minimum balances which they hold?—Not any further than is revealed in the Paper Currency Reports, which I have frequently read and studied

The witness withdrew

At the India Office, Whitehall, S.W.

THIRTEENTH DAY.

Friday, 11th July 1913.

PRESENT

THE RIGHT HON AUSTEN CHAMBERLAIN, M P (*Chairman*)

Lord FABER  
Lord KILBRACKEN, G C B  
Sir ROBERT CHALMERS, K C B  
Sir ERNEST CABLE  
Sir SHAPURJI BUEJORJI BROACHA

Sir JAMES BEEBIE  
Mr ROBERT WOODBURN GILLAN, C S I  
Mr HENRY NEVILLE GLADSTONE  
Mr JOHN MAYNARD KEYNES  
Mr BASIL P BLACKETT (*Secretary*)

The Hon MONTAGU DE P WEBB, C I E, recalled and further examined

5316 (*Sir Shapurji Broacha*) The recommendations of the Indian Currency Committee made 14 years ago, which were accepted by the Secretary of State and the Government of India in 1899, should now, you consider, be carried out in their entirety?—Yes

5317 I think you have changed your opinions very much in the last 14 years?—Yes, very much

5318 Do you wish that the recommendations of the Fowler Committee should be treated as sacrosanct in 1913, although that is not what you thought in 1898?—I have changed my opinion since 1898, for very good reasons I may add

5319 The members of that Committee were human like yourself, should we not therefore now be guided by the light of experience? That was the greatest experiment of all ages, and we have stumbled badly in many places, but we have now the light of experience in other countries, and we have the experience of what has happened in India. May we not, therefore, suppose that it is necessary to have a change in some respects?—Certainly, if it is proved necessary

5320 Then, of course, the report of the Fowler Committee is not sacrosanct?—In my opinion the recommendations are sound

5321 The Committee was composed of human beings like yourself?—In my opinion, events have proved that the recommendations of the Committee were sound and correct

5322 They are sound in your opinion now?—Yes, because the production of gold has, since that period, so very enormously increased. That is why I have changed my opinion

5323 You say in the four years, 1910, 1911, 1912 and 1913, there has been an excess of 20 millions over the budget estimates, is that not so?—Yes there has been an excess of revenue collected of 20 millions

5324 You said that though you heard Sir Robert Chalmers state that of that amount about 14 millions were non recurring windfalls, and after knowing that not only will one of the windfalls, opium, as a wind fall wholly disappear, but even any revenue from opium is likely to disappear, as I presume you will admit?—It looks like it

5325 Should you not therefore deduct the 14 millions from the 20 millions, thus leaving only six millions of excess revenue?—I cannot say from memory how much of the 20 millions represents collections from opium sales

5326 Do you think a million and a half of excess revenue per year in a progressive country of 320 million inhabitants who are increasing in prosperity by leaps and bounds is a great excess?—No

5327 I think it means a very closely made budget, for which whoever made it deserves great credit?—In spite of the warnings of the time about the opium revenue? I think at the time the extra silver taxation, &c., was put on, it was pointed out very clearly to the Government of India that the opium revenue would increase in the immediate future and not diminish

5328 You speak about the silver taxation, but I think that has been a blessing in disguise, because it has raised the accumulations by 11 per cent?—I cannot speak to the percentage from memory

5329 It has enriched the Indian people to that extent?—I do not regard the extraction of taxation in order to accumulate money in the Government treasuries as a way of enriching the people

5330 You say that India has for some years been unnecessarily heavily taxed, and that the budgets have not been framed to correct this over-taxation. Is not India the lightest taxed country in the world? Could you name a country that is more lightly taxed than India is at present?—It depends on the way in which the problem is regarded

5331 What it depends on is the income of the country, is it not?—If the taxation is regarded in reference to individual incomes, I should think India was heavily taxed, but if the amount of revenue extracted from a country of that size is only taken into consideration, then the country is lightly taxed

5332 Japan resembles us in wages and Japan, of course, is not a very rich country. The taxation in Japan per head is 17 rupees, and the taxation per head in India is 3½ rupees, what do you say to that?—I am not surprised, in view of the recent Russo Japanese war

5333 Then why should you say that India is heavily taxed? It is not a heavily taxed country at all. Take, for instance, the taxation in Egypt, which you might call a poor country, there it is 21 rupees per head. In Turkey even it is 14 rupees per head. You have asserted that more money had been collected in India than was necessary?—That was necessary for the purpose of meeting expenditure

5334 Yet India has a fifth of the taxation of Japan, a fourth of the taxation of Turkey, and a sixth of the taxation of Egypt, per head of population, do you accept those figures?—I think it is quite possible

5335 I think you must confess that there is not a country so lightly taxed as India is, if you do not admit it, show me one. You are a public writer, and you know Indians have taken up your cries, and I want you to prove that cry that India, compared with any other country in the world, is heavily taxed?—I do not

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[Continued

think that is relevant to the assertion which I make in my note

5336 Talking of taxation, you must say that India is the most lightly taxed country in the world, must you not?—I think for its size that is probably correct, although India is also the poorest country in the world per head of population

5337 It is just as poor as Japan, and the wages of both countries are the same?—I do not regard low wages as a test of prosperity

5338 Compared with any country in the position of India, India is the most lightly taxed country of the world?—Per head of population, and, as I say, it is also the poorest country in the world, per head of population

5339 I compare India to a country that is equal to India in many respects, and that country is Japan, next comes Turkey, then Egypt, then Russia. We are only taxed one-fourth of what they are taxed, or one sixth, or one seventh, or one tenth. I have taken here the poorest countries, so I think it must be admitted that India is a very lightly taxed country?—Undoubtedly it is per head of population, and, as I have said more than once, it is also the poorest country in the world per head of population

5340 Is it better than Japan in wages?—I do not know

5341 Our wages and Japan's wages are the same in the mills?—I doubt it very much

5342 Then prove it?—It is possible that the wages of mill hands in Bombay may be higher than the wages of mill hands in Japan, but India is a very great agricultural country, and I do not regard the wages of mill hands in Bombay as necessarily a test of the prosperity of the whole country

5343 As a general proposition, we are large employers of labour in the centre of India, and we are giving 200 per cent more wages than we were giving six years ago, or even 10 years ago, and wages have risen about 300 per cent. even in the Punjab?—Some wages have

5344 In which part of India would you say that the wages are poorer than in Japan?—I make no such assertion

5345 I say, taking the wages per head, and comparing everything, India is the most lightly taxed country in the world?—I think possibly it is per head of population

5346 You say "possibly it is," but can you prove otherwise?—I have not the material at my disposal at this moment to enable me to examine the wages of all the countries of the world, but I think it is quite possible that India per head of population, is more lightly taxed than any other country

5347 You say in paragraph 4, Part I of Appendix XXI (page 550), "On the contrary, in a country " that is notoriously handicapped for want of ample " supplies of cheap capital, and where the rates of " interest and discount rise to heights unknown in " any other part of the Empire," and so on. Will you state in which other countries of the Empire except England, the rate of interest is higher than in India?—I do not know any country where it is higher than in India.

5348 I am talking of Canada, I am talking of Australia, I am talking of the West Indies, and all those places, is the rate of interest there higher than in India?—I do not think so

5349 I can prove my point by one personal instance of yours. Though the bank rate was 8 per cent. in March or April, your firm could have borrowed at 4½ per cent or 5 per cent at any time during the last four or five years?—Are you referring to last March?

5350 You can take any March in the last five years. Your firm has been able to borrow for 12 months at 4½ or 5 per cent. for the working of its mills. Show me any mill in Lancashire that could borrow for 12 months at 4½ per cent.?—I cannot show you any mill in Lancashire. I do not know what they are paying for their money in Lancashire

5351 I am talking of your firm, and I tell you they are able, all through the year, even when the bank rate is 8 per cent.—just now it is 6 per cent.—to borrow at

4½ per cent. Even when the bank rate was 6 per cent, you could have borrowed for 12 months at 4½ per cent, and there is not any other part of the Empire where you could borrow under 6, 8, 9, 10, or 11 per cent according to the distance, whether it is Western Canada, or Eastern Canada, or Northern Canada, and so on. Do you know that the best firms in Australia pay 7 per cent for call money?—I cannot say what the best firms in Australia pay

5352 Then you make this statement, but you cannot prove it. You, being an Englishman, have stated, and the natives wanting a cry are taking it up, that India is the most heavily taxed country, and that the rates of interest in India are more heavy than in any other part of the Empire. I think you have made that statement without having any proof of it in your own hand?—I believe the statements which I have made in my note are correct

5353 How are they correct? You cannot prove it?—So far as my experience goes of the rates of interest that are paid in the Colonies, I have never heard of such high rates being paid as I have known in my experience being paid in India.

5354 Gave me an instance of your experience?—In which country?

5355 I am talking of the Empire. I suppose you do not mean England, but you mean Australia, or Canada, or the West Indies, or those places. Can you show me where your firm can borrow for a year at 4½ or 5 per cent?—I do not regard my own firm's transactions as a criterion of what money can be raised by other firms

5356 There are gentlemen and officers who pay 50 per cent, but you cannot compare them when you are talking of the rate of interest commercially. Seeing that India is so lightly taxed, and that India requires a great many public works, such as sanitation and education, for the development of India, should not the Finance Minister continue to budget a little higher rather than a little lower, in order to carry out all this work without borrowing?—If the Government of India propose to raise money by taxation for the construction of capital works, that is a policy which has a great deal to be said in its favour, but, up to the present, in preparing their budgets, the Government of India have not in their budgets stated that they are raising money for expenditure on capital works. If the taxation is so adjusted as to produce large surpluses especially to be devoted to capital works, I think there is a great deal to be said for it

5357 If they have, as you say, budgeted for too much, then they have squandered the money, on what have they spent it?—I did not say the Government of India has squandered the money

5358 Has the Secretary of State squandered the money?—I think the Secretary of State has not used it to the best advantage

5359 I agree with you that money ought to have been lent in India where the rate of interest is higher. Now the Government of India have about 7 crores or 10 crores in excess of requirements in the treasuries, can they lend more than 7 crores in India?—Certainly, in present circumstances, I should think not

5360 Then they have not been doing anything wrong in not keeping more money in India?—I hold the contrary opinion

5361 You were stating yesterday that they should lend to the exchange banks. The Government would not lend money under 6 per cent., or something like that, so why should the exchange banks borrow from the Government of India instead of bringing that money from England, especially as you say that they could not lend more than 7 crores now under present circumstances?—I do not think they could

5362 How should they use the 18 millions? Should they let it lie fallow in India just for the delectation of the people of India, should they hold these 18 millions there without interest?—I am not aware that the Government of India have attempted to lend 7 crores on the market, and I am not, therefore, in a position to say they could not have lent more. That was only a rough estimate on my part. Possibly

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[Continued

if 7 crores had been lent to the public, 8 or 9 or 10 crores might be lent

5363 Let me tell you—and I put my experience against yours—that the Government of India could not have lent 5 crores?—It is quite possible

5364 Do you know that from 1893 to 1895 this country, England, lent money because they had no scope for it at five eighths of 1 per cent for a year?—Quite possibly

5365 And at half of 1 per cent for a year?—That is quite possible

5366 They have to employ their money, and 3 per cent, if they cannot employ their money elsewhere, is six times as large as what the English banks got between 1893, after the Baring crisis, and 1896?—I certainly admit that three is six times as much as one half

5367 That lasted for three years?—I do not know that

5368 Of course, you must confess that they had to lend the money, or it would have been lying fallow in India?—I cannot say that the whole of it would have been lying fallow in India, some portion might

5369 Of course, it was the policy of Government not to lend, and I think it was an unfortunate policy which has brought about all this trouble, but still I think they could not have lent more?—I would not say that until I tried how much they could have lent

5370 All the witnesses who have preceded you, including bankers of experience, have said that they could not?—I think it is quite possible that it would be difficult to lend at 5 or 6 per cent

5371 So I think you can say that the Secretary of State was right in lending at any rate of interest, I do not say whether he lent at the best rate or not—that is another question—but the Secretary of State was right in lending money so as to get some interest?—I think the Secretary of State would have done better to have sent it back to India and have tried to lend in India first

5372 But he had seven crores there already?—That money was not lent out for the purposes of India

5373 The Secretary of State could have ordered that money to be lent?—He could have done so, but he did not

5374 Why did you take the Secretary of State's lending? Why did you not take first the Government of India's lending in India what they had in excess?—They should have done so

5375 I say you should have done so?—If I had taken up that policy several years ago, I should certainly have agreed that

5376 They could not lend upon security more than 11 millions in this country for a long time?—I do not know about that

5377 This is the richest country in the world, and yet at one time they could not lend more than 11 millions on security?—I noticed that the India Office could not do so

5378 Taking the two countries together, India and this country, do you think India could have done so?—I cannot say

5379 You are a very intelligent writer, can you not say that?—I cannot say what the Government of India might have done had they tried

5380 I think it seems that you have made statements without giving adequate proofs?—I think I have made sufficient inquiries

5381 You cannot give proof of that statement for one You say the Secretary of State should not have borrowed three millions when he had so much money in hand last year?—I think he should not

5382 Your exact words are—this is in paragraph 10, Part I of Appendix XXI (page 553)—“Last year, notwithstanding the vast sums of public money at the India Office's disposal, and in spite of the fact that the London money market was faced with more demands for capital than it was able conveniently to meet, an effort was made to borrow 3,000,000 in London on behalf of the Government of India.”—That statement is true

5383 Seeing that the Government of India's credit is not so good in this country as it was, were they not right, having so much to do in connection with public works and not being able to borrow in India, to borrow, when they could borrow at a good rate, as much money as they could in this country?—I do not think there was any necessity to borrow at that period

5384 Do you know that they could not borrow to day at the same rate?—Quite possibly

5385 Do you know that that same 3½ per cent stock has gone down 7 per cent since the last borrowing?—Quite possibly

5386 What do you do in private business?—I never borrow when I am full of money

5387 You borrowed for your railway a year before your concession was given to you?—No, I did not borrow at all

5388 You took money from the shareholders?—I did not borrow I desire to put it on record that I borrowed no money, and that I did not ask the public to lend me any money in advance in connection with any of my business concerns

5389 If money is required, you say in paragraph 12, Part I (page 553), “I am of opinion that the Government of India's floating cash balance ought, in the interests of economy, to be kept down to a maximum of 10,000,000, of which 3,000,000 might be kept in the Treasury in London, leaving the balance of 7,000,000 to be held in the treasuries and Presidency banks in India” Then you say that at anything like a time of necessity they can take money from the Currency Reserve, but they would have to pass an Act for that, would they not?—Yes

5390 They could not do it offhand?—No

5391 The Bank Act has not been suspended since 1866, but, supposing we fall short, they would have to suspend the Act and take the money from the Currency Reserve?—Yes

5392 Is that not a very difficult and very long way to go in order to have starvation supplies given to them?—I do not regard these figures as starvation supplies

5393 I will give you one public instance The Bombay Port Trust required a balance of a crore and a quarter for carrying on their works, and the Secretary of State has to provide for about 12½ millions, and has to be able to supply funds for all the necessaries, do you think in face of these facts that allotment would be correct?—I think it is sufficient

5394 On what basis do you go? When a corporation like the Bombay Port Trust require a crore and a quarter or thereabouts to carry on their business, do you think the Secretary of State should be put on a par with a port trust?—I think the figures I have given are large enough

5395 Do you know that India has a debt of about 500 millions on railways and other things, for which the Government of India is responsible?—No, I do not know that

5396 It is so?—I do not think it is so

5397 Then will you kindly tell me what it is?—I believe the Public Debt of India is about 270 millions

5398 Including the railway debt, for which we are responsible?—I think that is about the whole of the debt There is about 180 millions of debt in this country, and roughly about 90 millions of debt in India

5399 That is not all, there are the railway companies?—I cannot say from memory exactly what the railway capital comes to

5400 I think it is 375 millions for railways alone, so we will put it in round numbers as something between 400 millions and 500 millions You have not gone into that matter, I suppose?—As I have said, I cannot tell you from memory the capital of the railways

5401 Do you know what the Public Debt of Russia is?—No, not without making a reference

5402 I suppose it is 500 millions, in order to protect that debt and the interest, do you know what the Russian Government keep in gold outside Russia?—I could not tell you from memory

5403 Sixty millions or thereabouts, and, further, to protect their commerce and other things, the Bank



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[Continued

of Russia holds European bills or has in Europe 21 millions, do you know that?—I cannot speak to that from memory

5404 It is in yesterday's "Times", shall I read it to you?—I am perfectly prepared to take these assertions as being correct if they were in yesterday's "Times"

5405 Do you know why the Russians keep so much gold outside their country?—Because their credit is not so good as ours, I take it

5406 Do you know that there are people in Russia who have the same cry as yourself, and that the Russian Minister defended his action by reference to the Russian foreign trade?—I am not surprised to hear it

5407 And almost all the papers here have accepted it?—I think that policy might find a good deal of support in London

5408 Is Indian commerce such a light thing that you would not give it every possible facility in the money markets of the world?—I have a large personal interest in Indian commerce myself, and I do not believe what I think you are suggesting is necessary

5409 In Part II, paragraph 2, of Appendix XXI (page 555), you say "With the Indian mints open to the free coinage of silver, and the sterling value of the rupee depending entirely on the sterling price of silver in London and New York, no better means of paying India's sterling debts could possibly have been devised than weekly auctions in London of a portion of the stocks of rupees accumulated in the Treasuries in India in the course of the collection of the revenues by Government. The competition of the public at these weekly auctions enabled Government to secure the best possible sterling prices for such rupees as were auctioned, and the system was therefore admirable in every way." What is the difference now?—The mints are closed to silver

5410 But up to 1872, the time when Germany demonetised silver, the ratio of 15½ of silver to 1 of gold remained fixed and constant, just as now between 1898 and 1913 the ratio of gold standard has remained fixed at 16½ of gold to 1 rupee, so I think there is no difference, and that if it was admirable then it is admirable now?—That is precisely my contention, that the circumstances have entirely changed, that there is every possible difference, that the mints being closed to silver the value of silver rupees in India is entirely divorced from its value as a marketable commodity, and that therefore there is no reason whatever to auction rupees at this moment

5411 I think there was a very good reason then, because they could have the silver minted or sold at that ratio?—There was every reason for auctioning rupees when the mints were open, but there is no reason for auctioning when the mints are closed

5412 Do you want the mints to be opened for the Secretary of State to commence again?—For the free coinage of silver? No, certainly not

5413 You say the auctioning was all right?—Before 1893 it was all right

5414 There was a ratio, and you admit that system was most admirable?—Yes, before 1893

5415 Suppose the Secretary of State were to start now and open the mints in India, would the system be most admirable?—I do not think the Secretary of State should re-open the mints to the free coinage of silver. I think that would be undesirable

5416 You have said somewhere that fluctuations in exchange prevent people from moving their capital to and fro between England and India as freely as they might otherwise do. What about the fluctuations of exchange between the United States and England?—They are very different.

5417 How is that?—Because the fluctuations in the case of India are liable to be affected by the action of the Secretary of State, whereas in the case of other countries the movements in exchange are not liable to be affected by official interference

5418 What is exchange? I take exchange to be the transfer of wealth from one country to another, with the additional cost of freight, insurance, and

commission?—I do not know that I can accept that definition exactly as it is made

5419 Will you describe how it is different from the case of France, say? Does it cost you more than it would cost between France and England, or between France and the United States, or between France and Egypt?—I can only say that the difference between the two cases is that, in the one instance, the United States or France, movements in exchange take place in response to the requirements of trade only, whereas in the case of India movements in exchange take place in response to the activities of the Secretary of State

5420 What more would you pay than if you had to transfer your wealth from Russia to England—what more does it cost than the freight, insurance and commission?—I really cannot say.

5421 You are a merchant of great experience who has been doing a large export business, and you know that buying and selling actually depends on a difference of one sixty-fourth?—Yes, I do know that fact

5422 It is so?—Sometimes it is so.

5423 And that depends on the rate of interest?—

Yes

5424 Therefore, I say that was a very wide statement to make, when you tell the people of India that they are not on a gold basis, and that they cannot transfer their wealth between one country and another?—I never made any such statement that the people of India cannot transfer their wealth from one country to another

5425 Here it is; it is an extract from one of your letters—"State-manipulated fluctuations in exchange prevent many people from moving capital to and fro between England and India as freely as they might otherwise do." Who are the people that told you that—not the banks?—I think I understand what Sir Shapurji is driving at. What I have stated is that, owing to the interference of the Secretary of State with exchange, the public do not so readily transfer temporarily their money backwards and forwards to India as they would do if there were no Secretary of State interfering with exchange. I make that assertion from my own personal knowledge, as I am frequently engaged in moving money temporarily backwards and forwards

5426 How is it any different to what would be the case with the United States? Would not the man in the United States be interfered with in the same way?—If I were to transfer money between this country and the United States, I should have nothing to reckon upon except the movements of commerce, which I should be able to gauge as well as anybody else, but in the case of India I have to gauge not only the movements of commerce but the eccentricities of the Secretary of State, and it is those eccentricities which prevent me from taking the risk

5427 It is the same movement that moves exchange in India as in the United States?—No, it is not the same

5428 Yes, it is?—I differ

5429 Then in one of your letters you say, "In 1905-7 the Government of India coined over 40,000,000l worth of new silver rupees, thereby stimulating and contributing to the rise in prices in India that brought so many of the poorest classes to the verge of starvation." Do you know that in 1905-6 eight millions and in 1906-7 ten millions of silver were brought into India, so that was not a correct statement?—I understand your question to be this—that because 18 millions worth of silver was brought into India, it was not possible to manufacture 40 millions worth of rupees out of it.

5430 Yes, that is it?—I should think that with 18 millions sterling worth of silver it would be possible to coin very nearly 40 millions worth of rupees, because the value of the rupee in metal is only about 9d. or 10d.

5431 It was 18 millions brought in, and what they turned out in rupees was 40 millions?—I think both figures are probably correct

5432 (Chairman.) What you meant was a face value of 40 millions?—Yes. Possibly the 18 millions of silver is taken at its market value.

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5433 (Sir Shapurji Broacha) Out of those 40 millions, 13 millions would go to the Gold Reserve?—Some proportion would

5434 Do you think that contributed to the rise of prices?—Yes

5435 All the commodities that grow in India are exported, and it is the export price, that is, what the exporter is willing to pay, that makes the price?—I cannot acquiesce altogether in that suggestion

5436 I can aid you in that. When there were no railways wheat was used in the Punjab as fodder when there was an excess of supply and they could not use it for food, but to day the man in Germany who buys Indian wheat pays more for it than the Indian people do, because he has to pay freight, insurance, commission, tariffs, and all that sort of thing, so India has the advantage in price over the countries which buy Indian produce. How can you say, therefore, that prices are made by excess of currency, or redundancy of currency?—I think excess of currency does affect prices

5437 But not in India, because the prices are made by foreign buyers?—I think any excess of currency affects prices in India

5438 Will you tell me how it affects prices? If Germany wants to buy your wheat at six rupees, and you say Germany shall not buy it at six rupees, why do you not put tariffs on the export?—I do not favour a tariff on exports

5439 I think you are wrong in your statement that excess of currency contributes to the rise of prices?—I hold the contrary opinion

5440 When do you say there was a great redundancy of currency in India, taking any period you like to name from 1898 or 1899 up to 1913?—I think the silver currency was redundant about 1893, 1894 and 1895, and I think the silver currency was also redundant about 1906 and 1907

5441 That brings me to another point you made in reply to the Chairman. In 1893 you said the exchange went down because the currency was flooded with rupees?—That was one of the reasons

5442 Do you know that Russia is not a debtor country, in so far as the export and import of merchandise is concerned?—I do not know

5443 It has been stated that she exports about 70 to 75 crores more than she imports, so that Russia has just that excuse which you put forward for India, that India was not a debtor country, in a sense that her exports are larger than her imports?—I am not quite sure what the position is with regard to Russia, without making references

5444 Do you know that Japan has almost all her gold in this country—from 27 to 35 millions?—I am not quite sure what the amount is, but I do know that Japan has a good deal of gold in this country

5445 Should not that have some influence on the amount which the Secretary of State should have in his hands?—I do not think that Japan's financial position is at all a safe guide

5446 The United States exports from 100 to 150 millions, which is about 225 crores, more than they import. Do you know that it is in yesterday's "Times" that the States exported 12½ millions more in 11 months of last year than they imported?—I have not read yesterday's "Times" sufficiently carefully to be quite certain about it. I did not notice that passage

5447 (Mr. Keynes) Under Part I of Appendix XXI (pp. 550-4), I think I understand what your position is, but I have got one or two questions to ask. As regards paragraph 8, which relates to the sums of money which have been borrowed and repaid by various firms, do you mean to suggest that India's borrowers have held sums anything like those continuously since 1908?—Not necessarily

5448 Then what exactly do you mean to suggest by those figures?—I mean to suggest that there have been loans continually running apparently for five years

5449 Do you mean merely that those firms had some loans, not that they had loans of one million and upwards?—Not in one loan, but that they borrowed sums during the year and repaid sums during the year amounting to one million. If the loans were for

periods of three months, we will say, they might conceivably be for 250,000 each time, which would make one million borrowed in the year. If money was borrowed for shorter periods, it might perhaps be only 100,000

5450 I was thinking of this sentence, "The above borrowers appear to have been the recipients of what amounts practically to standing loans, totalling in all several millions sterling, for a period of over five years." In that sentence you do not mean us to infer that those firms had standing loans of several millions for over five years, do you?—No

5451 I wanted to get that point clear, because it seemed to me that the sentence bore the other interpretation?—I might perhaps be permitted to explain that the figures and the exact words which I have used are those which were given in Parliament in answer to a question put, I think, by Mr. Gwynne last November, but I can verify the question and tell you exactly\*

5452 I do not want that, thank you, it was only the inference you were drawing from these figures I wanted to be sure about. In paragraph 12 of Part I of Appendix XXI (page 553) you propose that the Secretary of State should have in London three millions as a maximum balance, do you mean by the phrase "maximum balance" that, except on rare occasions, his balances should never exceed three millions?—Yes

5453 Did you arrive at this figure because you found that his balances had never fallen below three millions?—I arrived at that figure because I found that on several occasions the Secretary of State held a balance of about four millions

5454 Do you argue that what experience shows to be a safe minimum must therefore be a safe maximum?—I infer that what has been satisfactory in the past, namely, a balance of four millions—

5455 As a minimum?—I do not know whether it is a minimum or not, because the official publication only gives the balances at certain periods, for example, I find that on the 31st March 1893 to 1901, on the 31st March 1903, on the 31st March 1907, and on the 31st March 1908, the Secretary of State held balances of about two to five millions sterling

5456 May I put it in this way—that because four or five millions have on certain occasions been found sufficient, therefore three millions would be sufficient on all occasions?—That is somewhat the way in which I argue

5457 Now I will turn to Part II of Appendix XXI (pp. 554-7). With regard to the remittances by sales of Council bills, I am not quite clear whether you criticise these remittances on the ground that they were made too soon, or on the ground that they should not have been made at all?—What remittances by sales of Council drafts do you refer to?

5458 I mean remittances by means of Council drafts in 1910, 1911, 1912 and 1913, do you argue that they were made too soon, or that they ought not to have been made at all?—I argue that no remittances over and above the requirements of the home charges should have been made at all. Of course the home charges must be provided for, but over and above the home charges I argue that no money should have been remitted at all, and that no Council drafts should, therefore, have been sold

5459 That of the sums actually remitted a large part ought not to have been remitted at all?—Yes

5460 You have probably noticed that on the 31st March 1913 the Secretary of State's balances were very nearly what they were on the same date in 1909, four years previously—they were just a trifle more. I think your memorandum does not give the figures for 1913?—I had not the Secretary of State's figures when I wrote that memorandum

5461 The actual figures, I may add, were 8,372,900 on the 31st March 1913, therefore they were very nearly what they had been four years previously. I understand that of the sums remitted during that period, you hold that some part ought not to have been remitted?—I find that the balance four years

\* See Hansard, Vol. XLIII., pages 1461-2 and pages 1709-60

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previously (*i.e.*, in 1910), held by the Secretary of State, was over 12 millions

5462 1909 I am speaking of?—In 1909 it was 7,983,000!

5463 That is very nearly the same?—Yes, it is

5464 Would you argue that during that period sums have been remitted which ought not to have been remitted?—Yes

5465 They were all spent, which of the purposes on which they were spent do you think were improper?—I do not know in what direction they have been spent

5466 I am putting on one side the sums credited to the Gold Standard Reserve and to the Paper Currency Reserve, to which I am coming later on, apart from those amounts all sums remitted have been spent?—I only know, so far as you have just this minute informed me, that the balance has been reduced to eight millions. That is all I know. But even if you tell me the balance has been reduced to eight millions I am still in the dark as to how it has been done and why it was not done a year or two before

5467 I understood you to say that the remittances were not merely sent too soon, but that they ought not to have been sent at all?—So I thought

5468 I am not now asking whether the Secretary of State remitted at the right date or not, but whether, at whatever date he remitted, he spent the money for improper purposes?—I cannot say that he spent it for improper purposes, because I am not aware where this money has gone

5469 First of all, the home charges, you admit that they are all right?—Yes

5470 Secondly, the purchase of silver, and I think you allow that?—Yes

5471 Thirdly, there is the redemption of temporary debt, is that a proper purpose?—Yes

5472 And fourthly, there is the expenditure on railway material?—Yes

5473 Putting apart the Gold Standard Reserve and the Paper Currency Reserve, practically every penny remitted during the past four years has been spent on one of those four purposes?—If that is so, it has been spent on proper purposes, and the only criticism in that case that I should offer is, why was not the temporary debt paid off many years ago instead of only last year?

5474 Your criticism then comes down purely to this point, that the Secretary of State has done certain things at a later date than he ought?—That he has brought money to England several years in advance of his requirements

5475 But it does not amount to any more than that?—That is one way of putting it. I can admit that in a sense the action of the Secretary of State resolves itself into bringing to this country several millions some years in advance of his own requirements. That appears to me to be very grave mismanagement.

5476 I only wanted to get exactly what your position was, because there are at least two different lines of criticism which to my mind are rather mixed up in your memorandum, namely, that through excess of precaution he postponed doing things which he could have done sooner, and the other point, that he was draining away money from India and doing various terrible things to India when he ought never to have brought the money from India at all, but now I understand that the second part is not your charge?—Yes, those are my charges—doing things that he ought not to have done

5477 Then in regard to this money which he ought never to have brought at all, which are the ways in which he has used it that are improper, I come back to that?—I was not aware how it had been used before I received the information that you yourself have given me. If the money has been used simply for home charges, for the redemption of debt, for the purchase of silver, and for railway material, it has been used properly, except that the debt might have been redeemed a year or two earlier than it has been redeemed.

5478 If I am right that it has all been used for those purposes, then that part of your criticism falls to the ground?—I do not understand how it falls to the

ground, because even if the money has eventually been correctly disposed of—

5479 I do not say that particular part of the proposition falls to the ground, only the part of your criticism that the money has been remitted in excess. I am not dealing now with your criticism that it has been remitted at the wrong time, but with that part of your criticism which says it ought never to have been remitted at all. That, I think, falls to the ground if the only purposes for which it has been spent are those I have named?—If all the money has been properly disposed of, that portion of the criticism is in a sense disposed of.

5480 If it has been spent on the purposes I have named, then it has been properly disposed of?—It has been properly disposed of in the end, eventually. I have never asserted for a moment that the Secretary of State has improperly disposed of the money. What has occurred is that he has accumulated vast sums for which he had no need, and then, under the effect of repeated criticisms, he has at length disposed of that money, but only under the stimulus of repeated criticisms.

5481 When you say improperly remitted, you mean remitted too soon?—Remitted years ahead of his requirements.

5482 Not remitted too much?—He has apparently disposed of it in the end.

5483 I come now to your proposal about fixing the price of Council bills. In your memorandum you have suggested that it should be fixed at  $1s\ 4\frac{3}{4}d$  or  $1s\ 4\frac{1}{2}d$ , but in your evidence to the Chairman you suggested that it should be fixed at  $1s\ 4\frac{1}{8}d$ . Which of those figures do you wish to maintain?—The figure that I suggest for the home charges is one that shall be below the gold point. Of course, the gold point varies from month to month, and therefore it is impossible for me to give the exact figure, but I should think that about  $1s\ 4\frac{1}{8}d$  would be a workable point for the home charges.

5484 I understood you to propose that the Secretary of State should put up a brass plate?—Yes.

5485 On which he should say that at all times of the year there should be a certain fixed rate for Council bills?—Yes. I think it should be  $1s\ 4\frac{1}{8}d$ .

5486 That  $1s\ 4\frac{1}{8}d$  would be the fixed rate?—That rate should be a stable rate, but it would, of course, be liable to alteration.

5487 It would be maintained all the year?—Possibly, or at the end of six months there might be reasons for amending the rate. I should say that  $1s\ 4\frac{1}{8}d$  would be about the correct figure to start with.

5488 That is your proposal, that there ought to be sales of bills at all times of the year at that rate?—Yes.

5489 Are you aware that the rate got for these bills between 1910 and 1913 was almost exactly  $1s\ 4\frac{1}{2}d$ ?—Quite possibly.

5490 So that your proposal would have made no practical difference?—It would have made a great deal of practical difference in actual business.

5491 The Secretary of State would have undergone the risk and inconvenience of undertaking this liability to sell at a fixed rate without getting any more for his bills?—That I cannot say.

5492 I understood your line to be that the Secretary of State should not put himself out to help trade, but that he should get the most profitable rate for his bills?—Yes.

5493 If your policy had been followed, he would have undertaken certain risks, and would have got no more profitable rate than he actually got?—That I cannot say. I cannot see the risks.

5494 Taking my figures, if he did in fact get  $1s\ 4\frac{1}{8}d$ , that would be the case?— $1s\ 4\frac{1}{8}d$  is about the specie point now, but a few years ago the specie point was considerably higher—it was  $1s\ 4d$ , and  $1\frac{1}{2}$  annas, and there was a time when it was 2 annas—I am speaking in Indian phraseology, I should say. If the Secretary of State has only got an average of 1 anna now,  $1\frac{1}{2}$ , over  $1s\ 4d$ , it is clear that he is doing

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right, but if 1 anna is an average which corresponds over a period of years, then he has got a poor rate

5495 I am speaking of the period from 1910 to 1913?—I think from 1910 to 1913 the average rate ought to have been more than 1 anna, over 1s 4d, possibly 1½ anna— $\frac{3}{8}$

5496 Taking your figures, if he had put up his brass plate, he could not have got more than that?—He might have got  $\frac{3}{8}$  four years ago, that is, his brass plate might have shown the rate of  $\frac{3}{8}$ . His brass plate, I suggest this year, should show 1 anna, but four years ago I think the gold specie point, the import point into India, was nearer  $\frac{1}{2}$  than  $\frac{1}{4}$

5497 I was trying to argue it on your figure, but of course if you take a different figure, I shall have to use different arguments I will pass from that to a further point connected with it Suppose that the Secretary of State fixed some rate, which may be 1s 4½d, or some other rate, and he does not sell enough bills to meet his various charges, how is he to make up the difference?—Ship home sovereigns

5498 These sovereigns he has taken at the rate of 1s 4d, that is, he has issued rupees against them at the rate of 1s 4d?—He may not necessarily have issued any rupees against them at all They may be sovereigns that the public have imported

5499 How else have they got into his treasuries?—Through the collection of taxation

5500 At the rate of 1s 4d?—I cannot tell what the rate is The public import sovereigns when it pays them, sovereigns are paid to the Government in the form of taxation, and the Government then finds itself in possession of the sovereigns in its treasuries

5501 The sovereign is legal tender for so many rupees at 1s 4d?—Yes

5502 Therefore the Government could not receive it in payment of taxation at any other rate?—No

5503 It therefore receives this gold at 1s 4d?—That is so as between the Government and the public, but the public would have imported the sovereigns at a different rate to the 1s 4d

5504 I am speaking of the Government The cost of bringing those sovereigns back would be  $\frac{1}{8}$ d, would it not?—Something like that

5505 So the sovereigns that would have to be brought back to the Secretary of State would bring in money at the rate of 1s 3½d?—Yes

5506 You are proposing that he should stick out for 1s 4½d, and then for the balance which he cannot get at that rate, he should bring sovereigns home at what works out at 1s 3½d?—Yes

5507 And you think that policy would lead to his getting a better average rate than his present policy?—Yes My reason is that, roughly speaking, in four years out of five, the balance of trade is in India's favour, so I take it that in three years out of four, or in four years out of five, the rate of exchange would always stand at the gold import specie point, or in the neighbourhood of it, and that only on rare occasions, one year in five, would there be a risk of some small portion of the Secretary of State's home charges having to be shipped back in sovereigns That is the risk

5508 Suppose that seven eighths were sold at 1s 4½d, and one eighth had to be brought back in the way I have described, will you take it from me that it would work out at about the same as if he had sold them at an average of 1s 4½d, so that if only one eighth had to be brought back in gold, he would be no better off than he is at present?—If the figures that you state are correct, that would be so, but it would be a much more correct procedure, in my opinion

5509 It does not look, however, as if there is much in it from the public point of view of getting a better rate of exchange?—I have not worked out these figures that you tell me of

5510 They are an important part of the argument, but you have advanced this proposal of yours without working them out? What I mean is this You are suggesting to me that the Secretary of State remits home seven-eighths of his home charges at 1s 4½d,

and one-eighth of his home charges at 1s 3½d?—This might happen only one year in five

5511 In the case of one eighth he has to bring home the sovereigns?—That is equivalent to bringing home one eighth at 1s 3½d, and you assure me that the average between one eighth at 1s 3½d, and seven eighths at 1s 4½d, is about 1s 4½d, if that is so, then there is not much in it in the year in which it occurred

5512 This calculation is the only sort of calculation that you can make, if you are wondering which of these two policies would pay best?—That is so

5513 But, nevertheless, you have not examined it?—Assuming those figures to be correct, that state of affairs would arise on an average one year in five and only one year in five, because only one year in five would it be necessary to ship home gold in payment of a portion of the home charges So one year in five he would be no better off, he would merely stand at 1s 4½d, but in the other years as a whole the exchange would be higher

5514 You propose, therefore, that he should undertake this very serious liability of selling bills at all times of the year at a fixed rate, and run the risk of not being able to get his home charges back, for what would clearly be a mere tuppenny ha'penny profit, even if he got it?—I cannot recognise the slightest risk whatever of any kind, on the contrary there is less risk than there is at present, because were this system in force, he would only withdraw from India the amount required for home charges—16, 17, or 18 millions, whereas at present the Secretary of State is withdrawing 25, 26, 27, or 29 millions wholly unnecessarily

5515 But we have agreed that they are withdrawn for necessary purposes?—Not necessary purposes at the time they were withdrawn They were subsequently made use of, but they were quite unnecessary at the time they were withdrawn

5516 If less had been withdrawn in the earlier years more would have been withdrawn in the later years?—No, because the floating debt would never have been incurred, I take it, in London, and, therefore, there would have been no necessity to remit money home to pay off that floating debt

5517 If it had not been incurred, then more money would have been required to meet the purposes for which it had to be spent?—Possibly, if the same balances had to be maintained, that is, if you hold that the level of the cash balances maintained by the Secretary of State is correct, but I assert that that balance was unduly heavy, and therefore that these loans were unnecessary

5518 That is going back to another point, which we discussed earlier?—That is another point, I admit May I state at this point that I cannot agree for one moment that the procedure of selling Councils at a fixed rate involves any risk on the part of the Secretary of State more than he is at present incurring? It does not involve the slightest risk

5519 (Sir Robert Chalmers) Is that so as regards the seasons? It might be that the season of demand for bills might not be the season at which the Government of India was in possession of rupees, you would admit that that would be the case, would you not?—Yes, that is a little additional risk

5520 It might be a very important question?—That could be overcome

5521 It would depend on a calculation of supply and demand?—Yes, but I imagine that would have to be overcome possibly by the shipment of gold

5522 (Mr Keynes) Your proposal merely comes to this, that it is your opinion, not on the basis of any calculation, that if the Secretary of State brought over as much as he could at 1s 4½d, and the balance, whatever it might be, in gold, that would lead to a better average rate of exchange than what he now gets?—Yes

5523 That is not based on any calculation or any minute investigation of any sort?—It is impossible to base it on any exact calculation, because there is no profit in working out imaginary instances on past experiences There is no profit in going back three

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years, and saying that if 27 millions had not been remitted to England but only 16 millions had been remitted, and if exchange had been at such-and-such a point and if this had occurred and that had occurred and the other had occurred, the result would be different I do not think that is a profitable investigation

5524 May I put to you one or two considerations that should be taken into account? Suppose you fix exchange at  $1s\ 4\frac{3}{4}d$ , then the Secretary of State would never sell any bills when there was gold available in Egypt or Australia, would he?—It depends on what the gold specie point was

5525 When there is gold available there, I assume it would be below that?—Yes, quite possibly

5526 In some years there is a very great deal available in Australia and Egypt, is there not?—Yes

5527 An amount almost equal to India's balance of trade?—Quite possibly

5528 In those years the Secretary of State would sell no bills?—I cannot say that

5529 Or very few bills?—When you referred to the balance of trade, I thought you meant the balance of trade not taking the home charges into consideration, but over and above the home charges

5530 Over and above the home charges the balance of trade is trifling, is it not?—I should not call it trifling

5531 How much is it?—It varies between, I suppose, nothing up to as much as 10 millions or 12 millions

5532 What is the average—about three millions or four millions, I think it is something small of that sort?—I should have thought, without looking into the figures, that the average would be nearer five millions in recent years. In recent years the balance has been very large, and in the years immediately following the closing of the mint the balance was very small

5533 A great part of that balance is needed for payments of interest and so forth in England, and what you may call the available free balance is what the Secretary of State draws?—I think there is a much larger balance due to India than what the Secretary of State draws

5534 How is that used?—It is liquidated by the shipment of sovereigns to India, and over 20 millions, I think, went in last year

5535 That brings us to a point at which we can argue I was thinking of the additional amounts available over what are now available. When there is a great deal of gold in Australia and in Egypt, all that gold would go and the Secretary of State would not sell bills?—Not if the Secretary of State's rate was fixed at too high a level

5536 If fixed at  $1s\ 4\frac{3}{4}d$  in such years, therefore, he would be in difficulties about selling the full amount?—If his rate was too high

5537 He would be also in difficulties in those years in which there was an adverse balance?—Yes, he would be in difficulties in the sense that the rate would need revision

5538 On the other hand, if you fix the rate at  $1s\ 4\frac{3}{4}d$ , gold would never flow to India from England in that case?—I should be very sorry to say never, but I do not think it would frequently flow

5539 It would flow very seldom?—It would flow very seldom in present circumstances

5540 Is he not driven therefore to a fluctuating rate, from the fact that sometimes gold is available in one place and the gold import point is at one figure, and sometimes gold is available elsewhere, and then the gold import point is a different figure, so the actual figure is not steady throughout the year?—It was for that reason I suggested that the rate of  $1s\ 4\frac{3}{4}d$  would be a business-like rate to take to commence this method of selling Council drafts

5541 Still you agree that if they took that rate gold would very seldom flow to India out of England?—Yes, I agree

5542 But you have criticised the Secretary of State's policy precisely on the ground that the rate he has charged has had that effect?—I do not follow the question

5543 I understand you have criticised the Secretary of State on the ground that he has sold bills at a rate which prevented gold from going to India?—Yes

5544 And yet you have proposed a rate that shall have that effect?—Up to the extent of the home charges, certainly I put the Secretary of State's requirements first. That is why I took the rate of  $1s\ 4\frac{3}{4}d$ , because that would enable the Secretary of State to make his remittances for a certainty before gold commences to flow

5545 We then come back to the old point that you consider that he has remitted more than he needs in Great Britain?—Yes, at the time that he made the remittances

5546 If the gold had gone to India in the earlier years, it would have had to be brought back in the later years. Suppose over the four years he had to remit exactly what he did remit, and he remitted less in earlier years so that the gold flowed to India, he would have had to have brought all that gold back again?—I cannot agree to that straight away, because the fact of his not permitting the gold to be imported has been the occasion of a certain amount of silver coinage in recent years, the silver coinage affects prices, and prices affect the movement of trade. So I cannot say I should acquiesce altogether in that proposition, but, speaking generally, I say yes

5547 I cannot see that the thing comes to much. All that would happen would be that the gold would have been taken out to India, the expense of which would have been borne by Indian traders, and then in a later year it would have been brought back to England, the expense of which would have been borne by the Secretary of State, and apart from those two items of expense, things would have been very much the same as they are?—Even assuming that things were very much as they are, assuming that the result so far as the Government books are concerned was the same, we should still have secured this important consideration—that the public would not have constantly had the rate of exchange jumped about, jumped up and jumped down, by the eccentric action of the Secretary of State\*. Even assuming that there was no difference in the Government accounts, assuming that on the average at the end of three years the amount which the Secretary of State realised turned out the same, we should still have eliminated this disturbing influence of an official interference with the exchange, which makes it very difficult sometimes for the public to know what to do in the financing of their business

5548 What do you mean by calling the Secretary of State's action eccentric, is it not dictated by well known rules?—I think not. I confess that at times I have been unable to conceive any rule by which it has been dictated at all. That is why I used the adjective "eccentric"

5549 The people most concerned in this question, you would agree, are the exchange banks?—They are the people who get most of the convenience out of the transactions

5550 They have expressed themselves as entirely satisfied?—I quite understand that. I think they are perfectly satisfied. The bankers are the people who will take advantage of this convenience, and I should not expect any exchange bank to say otherwise than that it is a most excellent arrangement which ought not to be disturbed

5551 I understand that the result of all this is that the one advantage which you claim for your proposals is that persons in India would have more certainty as to what the rate of exchange is?—Yes, that is one advantage

5552 And there is no other important advantage?—I think there would be an advantage to the State, that is to say, I think the Secretary of State would have realised more for the rupees that he has sold than he actually has done. That point you question, but I do think he would have realised better myself. Those are the two advantages

5553 With regard to the steadiness of exchange, I have got one or two questions I want to put to you

\* See note by Mr Webb to question 5137 on page 228.

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Suppose that the Secretary of State fixed his rate at 1s  $4\frac{1}{2}d$  or 1s  $4\frac{3}{4}d$ , and, having met his requirements, stopped selling, exchange would rise possibly up to the gold point?—Yes

5554 Or, on the other hand, while his offer of 1s  $4\frac{1}{2}d$  was open, exchange might be a great deal lower than that?—Yes

5555 In what way would there be greater certainty than there is at present? Exchange would still fluctuate between some figure like 1s  $3\frac{1}{2}d$  and 1s  $4\frac{1}{2}d$ . In what way would it be more certain?—It would be more certain, because in four years out of five the balance of trade is in India's favour, and consequently in four years out of five exchange would have remained at the gold import point

5556 But at any given time of the year it would be a matter of great uncertainty what the exchange rate would be?—I should not feel very much uncertainty. As a practical merchant dealing with finance every day I should feel very much the reverse. I should feel very much more easy if I knew the Secretary of State was not going to interfere in any way. Speaking as a practical merchant, if I knew that the Secretary of State had one rate and one rate only, viz, 1s  $4\frac{1}{2}d$ , I should then as a practical merchant make my calculations on the movements of trade as far as I was able to judge them, and I should feel that one cause of uncertainty, namely, the Secretary of State, had been eliminated

5557 (Sir Robert Chalmers) What is it in his action that strikes you, as a practical man, as the cause of uncertainty? You know how much he is putting up?—Yes

5558 How long do you know that beforehand?—Only seven days

5559 Is it the seven days that is the most important to you?—Partly

5560 You do know it in advance, but you would like to know more in advance?—In practical business we sometimes have to make our calculations six, seven, eight, and nine months in advance

5561 (Chairman) You do not suggest that the Secretary of State could possibly announce, sufficiently in advance to meet your convenience, what he is going to do, do you?—Yes, because if the Secretary of State has his fixed rate of 1s  $4\frac{1}{2}d$  that might stand for the whole year

5562 I understood you to say that even that fixed rate must be varied from time to time by the Secretary of State according to the gold point?—It is conceivable, if the Secretary of State was not able to realise the sums required for the payment of the home charges, that at some period that rate might need revision

5563 (Sir Robert Chalmers) You mentioned six months as the period, I think?—Yes

5564 Which is less than the period which you would desire for your practical convenience?—Yes, but even if it were revised once in three months, or even if it were revised once in a month, it would be an improvement upon revision once every seven days

5565 The difference between a week and a month is what you come down to?—I would rather not have a month, because in practical business we have to make our calculations several months in advance. Therefore, I would much prefer to have a year, if it is possible to fix the rate for an entire year

5566 (Mr Keynes) I would like to put the question to you from the Secretary of State's standpoint. We start him on the 1st March with three millions in London. He announces that he will sell no bills below 1s  $4\frac{1}{2}d$ , it is improbable in that case that he will sell bills at that rate in any large quantity until the next busy season comes round, is it not?—I do not think the rate would have any effect. When once it is known that the Secretary of State acts on these principles and that there is only the one rate, I do not think that rate will have any effect on the amount that he will sell. The public will apply for whatever money is actually wanted

5567 It would affect the amount that he would sell at different times of the year, for instance, people would not want money in India at that rate at present?—Yes, they would. In exactly the same way as the

public are now taking 20 lakhs from the Secretary of State every week at 1s  $3\frac{1}{2}d$  or 1s  $5\frac{1}{2}d$ , I think in exactly the same way at this time of the year they probably would take 20 lakhs at 1s  $4\frac{1}{2}d$ . I think at this season of the year 20 lakhs a week can be utilised, and the public would take them. At other seasons it may be that 100 lakhs a week, perhaps 120 lakhs a week, are likely to be taken

5568 I put that same question to the exchange bankers whom we saw, and they gave a precisely opposite answer, you think they would be wrong on that point?—Yes, I think so. If I may be permitted to add a word, if the rate were suddenly at this moment pushed up from 1s 5 annas to 1s  $4\frac{1}{2}d$  I can quite believe that the sudden shock to the public would be such that the Secretary of State possibly would sell no Councils for three weeks or a month or two months, but if this principle were introduced and carried into operation regularly year by year, I do not think it would have that effect at all. I think that in the slack season the public would take 20 lakhs, 30 lakhs, or 15 lakhs, whatever they required, and in the busy seasons they would take very much more

5569 It is your considered opinion that if the rates for Councils were fixed, the Secretary of State would sell substantially the same amount week by week that he sells now?—Yes, I think so

5570 In an article which appeared in your name in the "Pioneer," some weeks ago, you argued that the Secretary of State would certainly get buyers for his bills, because there is no way except the purchase of Councils by which rupees can be obtained in large quantities?—Yes

5571 You are not aware of the notification which has been in force for a great many years by which the Government of India have bound themselves to supply rupees or notes in exchange for the tender of sovereigns?—I am perfectly aware of that

5572 Then the purchase of Council bills is not the only way of getting rupees?—In large quantities with certainty, yes

5573 The Government of India have bound themselves to give you rupees in exchange for sovereigns in any quantity?—They have, but on one or two occasions they have not been able to do so, and possibly, if I were to ship out five millions of sovereigns to-morrow they would not be able to do so

5574 On what occasions have they refused to do that?—I cannot give you the exact year correctly, but I was in Calcutta some years ago when there was a shortage of rupees, when 8 anna pieces were shipped to Burma to finance the rice trade, and when the people of Burma would not have the 8-anna pieces, and the 8 anna pieces were all shipped back again to Calcutta, although they were legal tender. There were not enough rupees, in fact, to go round. I remember on more than one occasion that occurring

5575 You mean that this notification was not maintained by the Government?—I think they had a difficulty on that occasion in maintaining it

5576 They had a difficulty, but did they maintain it?—It has been maintained, I think. There has been no actual breakdown

5577 (Sir Robert Chalmers) You are not aware of any specific refusal of the Government of India to abide by the terms of their notification?—No, I cannot recall any

5578 (Mr Keynes) You would agree then that what you wrote in the "Pioneer" wants some modification?—No, I think it is substantially correct, as referring to prompt supplies of rupees in large quantities. There are ways of raising rupees in certain quantities, but in large quantities they can only be obtained in that way, by presenting the sovereigns to the Government and getting the rupees from the Paper Currency Reserve. It is conceivable that the Paper Currency Reserve may not have sufficient rupees in it at the time to supply the demand

5579 Let me quote your words—"The Indian mints now being closed to the public (a most objectionable state of affairs that puts India, momentarily, on a par with Persia or China), there is now no way by which the public in India can obtain supplies

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" of rupees on a large scale except by purchasing " them in London from the Secretary of State " You agree that there is a notification which has always been maintained by the Government, by which you can get rupees in exchange for the tender of sovereigns?—Yes, I was perfectly aware of that notification. Perhaps the expression "in large quantities" may not have conveyed to you the same meaning that I had in my mind when I wrote it. The large quantities may be modified by the inability of the Government at certain periods to produce rupees as rapidly as the public might import sovereigns, especially if the Secretary of State's drawings were restricted to 16 millions or 17 millions required for the home charges.

5580 (*Mr. Robert Chalmers*) The statement was not based on a specific actuality?—No.

5581 (*Mr. James Begg*) You said yesterday, referring to the budget of 1910, that you thought the realised surplus of the previous year warranted a reduction of taxation, you thought that when there was a realised surplus of a million and a half, taxation might have been taken off?—Yes, it might have been taken off.

5582 As a matter of fact, were not some additional duties put on in the budget of that year?—I think 1910 was the year of additional taxes on silver, cigarettes, and petroleum.

5583 To the extent to which these additional duties brought in fresh revenue, they contributed to the subsequent surpluses?—Yes, undoubtedly.

5584 You were questioned yesterday about the sales of Council bills to prevent gold going to India, because the sovereigns might be shipped back again, if there was an effective gold currency in India, would there be any need for the re-shipment of sovereigns to buy silver on a large scale?—Not on a large scale.

5585 Consequently there would be no need to sell bills to prevent gold going to India?—No, I strongly object—and that is one of the grounds of my objection—to sales of Council bills at below the gold import point.

5586 I gather that you are in favour of selling Council bills to lay down money in London for the purchase of silver?—Yes, for token currency purposes.

5587 Would you say that the silver purchases should always be paid for from the proceeds of Council bill sales?—They most certainly ought not to have been paid for last year from the proceeds of Council sales. That, I think, was an unpardonable blunder. On some occasions I think it would be a satisfactory way of providing for the token currency if a small sum were entered in the Secretary of State's budget every year and drawn from for replenishing the token currency, the idea being to prevent any excitement in the silver market, and to enable the Government to replenish its token coinage on the best possible terms.

5588 When silver is purchased from the proceeds of Council bills for coinage purposes, that means an addition to the total currency of India, does it not?—Yes, it does, in a way.

5589 If you use gold from the Paper Currency Department to buy silver for coinage, that is a substitution of silver currency for gold currency?—Yes, quite so.

5590 There is no increase of the total currency in that way?—No.

5591 Whereas if you sell Council bills to be used for buying silver, that is an actual addition to the total currency?—Yes, that is so.

5592 Do you regard it as a disadvantage to India to carry more metallic currency than is absolutely necessary?—Yes.

5593 Regarding Council bill sales below the specie point, do you consider that they act as a stimulant to the export trade?—Not permanently.

5594. But so long as the sales go on?—They act as a stimulant, that is, a falling exchange acts as a stimulant temporarily.

5595 Sales of Council bills might cause exchange to fall?—Certainly, and they have done so.

5596 The other way about, the effect on the import trade would be in the opposite direction?—Quite so.

5597 Selling Council bills in that way means, does it not, that the gold standard is prevented from working naturally?—Undoubtedly.

5598 The nearer you get to the gold import point, the nearer you get to automatic working?—Quite so.

5599 The ability to sell Council bills depends, does it not, on the balance of trade being in favour of India?—Wholly.

5600 The higher you put the rate, the less chance you have of selling your bills unless under very favourable trade conditions?—I doubt whether the actual level of the rate would have much effect upon the trade of the year, taking it as a whole.

5601 If you put it too high you get sovereigns going in?—Yes.

5602 You cannot go above the import specie point?—No.

5603 If the Secretary of State holds for a fixed rate for his Council drafts, and you have an unfavourable state of trade, the balance of trade being against India, he would not be able to sell at his rate if it was a high one?—No.

5604 Then it would be a question, would it not, how long he could afford to wait for the money he requires?—Yes.

5605 An allusion was made yesterday to the time in 1894 when the Secretary of State held back the sale of Council bills for certain rates for a certain time?—Yes.

5606 Do you remember whether when the decision was arrived at not to hold up the sales for special rates an intimation was issued that the sales would be resumed at market rates?—Yes, I remember that. It was notified at the time that sales would be resumed at market rates, and I remember very well the consternation that this notification produced in the mercantile mind at the time. I remember myself being under the impression that the Government were holding out for 1s 4d, and then we were suddenly told that the Government would take any rate that was offered. I think the effect was to send exchange with a run down to 1s 1d, speaking from memory.

5607 Do you consider that the reason of that was that the balance of trade was not sufficiently in favour of India to absorb the accumulations of remittances which had been held up?—That result was produced, I think, by the excessive coinage of silver at the time that the mints were closed, which had the effect of checking the balance of trade in India's favour.

5608 The result of holding up the bills for a fixed rate and then throwing the accumulations upon the market was disastrous, was it not?—It was, in my opinion.

5609 Would you say that that experience showed that when unfavourable trade conditions prevail the Council bill system is a disadvantageous one for the Government?—No, I do not think so.

5610 They put themselves in the position that they have to declare how much they want to sell, does that not place them in a bad position?—I think not. I think the public know that 16 millions or 17 millions, or 18 millions, have got to be remitted during the course of the year, and if at any time the balance of trade is against India, then I think there is nothing for Government to do except to ship home sovereigns from their revenue accumulations to meet their home charges.

5611 (*Mr. Gillan*) I am not sure that we are looking at this question of Council bills in exactly the same way, and I would like to make that clear, if I can. In Part VIII, paragraph 2 (h), of Appendix XXI you (page 569) have given a definition of Council bills. You say, "They are simply sales in London of sovereigns or rupees delivered in India."—Yes.

5612 I am not sure if you mean that they are sales of actual coin, so to speak?—Yes, so I regard them.

5613 Suppose that you had an account, we will say, with the Bank of Bengal at Calcutta, and that your home firm had sent you out a bill for, say, five lakhs of rupees, but you did not immediately want the

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com for that, what would happen to it?—I should pay it in to my credit at my bankers in Calcutta

5614 You are banking at the Bank of Bengal with whom the Government are also banking?—Yes

5615 In that event it would mean simply a transfer from the Government account to yours?—Yes

5616 I will suppose that you also deal in opium, you have bought a lot of opium and you have got to pay Government, and you pay them by a cheque which transfers the amount from your account to the Government account?—Yes

5617 That cycle is complete without any coin?—Yes

5618 Supposing that a great many transactions in India were done by cheques instead of by coin, these Council bills would not mean sales of actual coin, would they?—Not exactly

5619 Would it not, therefore, be more correct to say that they are sales, we will not say necessarily of coin, but of a right to a certain sum in Indian legal tender currency?—I should not object to that definition

5620 Would you be prepared to go further, if we transposed the definition and said that these Council bills which the Secretary of State at present sells in London are really equivalent to purchases by him in Indian currency of bills on London? That is what they are equivalent to, is it not?—In a sense, yes

5621 I am only putting that, because it seems to me to put the matter in rather a clear light. That legal tender currency in India is liable, is it not, to appreciate and depreciate in exchange, and that naturally like any other currency in any other country?—As regards the foreign exchange, yes, it is liable to fluctuate between the specie point inwards and outwards

5622 What I was going to say is that those fluctuations do not depend on the cost of importing sovereigns, as you said just now, they are limited by that cause, but they do not depend on it?—Not wholly

5623 In the passage that I have quoted from your memorandum, you go on from that definition to say "and the cost to the public should be only a shade below the actual expense of shipping 'sovereigns to India'" (page 569)?—Yes, that is so

5624 Why do you make it depend on that factor?—Because the balance of trade is, on the whole, in India's favour

5625 I can see what you said in reply to Mr. Keynes on that point, but here it seems to me to be an inference drawn from that definition?—Yes that is so

5626 Do you still think that is correct?—Yes, I think so

5627 Yesterday, in answer to the Chairman, you spoke of the Secretary of State making, I understood, a rate of exchange, but that I was not clear about?—Yes, I did

5628 What is the total volume of Indian trade? I put it to you that it is somewhere, in and out, between 300 and 400 crores a year?—Yes

5629 That creates exchange to that extent?—Yes

5630 The Secretary of State's demands are, we will say, 30 crores?—Yes, it is a very large demand

5631 Assuming that he has, we will say, a tenth of this exchange created by the total trade of India, how is it possible for him to make a rate? That is what is not clear to me. How can a person who is dealing, we will say, in a tenth of any commodity, exchange or anything else, make a rate?—I can explain that very easily. He makes a rate in this way. When in the eyes of the public the demand for remittances to India is weak, and he suddenly and unexpectedly announces that next week he will dispose of 50 lakhs instead of 30, he thereby at once depresses exchanges by  $\frac{1}{3}$  or so. If he announces next week I will not auction any rupees at all, he will strengthen exchange but if he announces next week I am going to sell 100 lakhs instead of 50, and the market is already weak, the instant effect will be to knock exchange down at once. His mere announcement that he is going to sell next week so many rupees has a depressing effect upon the market, or a strengthening effect upon the

market if he reduces the amount of rupees that he is putting up for auction

5632 As I understand it, you mean this, that being a very large dealer in this commodity, he has the power of disturbing the market?—Being a monopolist, almost, in the sale of rupees—for he is not only a large dealer, he is a monopolist—being a monopolist, he can largely make the rate. He can say week by week I will not sell a single rupee, and in that way he can force the rate up to specie point. If he does not take that action, but says I am going to sell next week 50 lakhs, and then in a subsequent week I am going to sell 100 lakhs, and the week after I am going to sell 200 lakhs, he can depress the rate down to specie point outwards

5633 I am afraid I must pursue that point if you say he is a monopolist. In what sense is he a monopolist? It is open to anyone to take sovereigns into India and demand rupees, is it not?—Yes, under the notification which Mr. Keynes just reminded me of, that is so

5634 How is his position then one of monopoly?—I regard it as a monopoly in this sense, that through out the last year or two he has actively intercepted and prevented the export of sovereigns to India by auctioning rupees at below specie point

5635 That is another point altogether, surely, I was asking you about his position as a monopolist?—That is how he has exerted the power which his position gives him. If you take into consideration the fact that he has undertaken to produce rupees in exchange for sovereigns in India at the rate of 15 rupees to a sovereign, to that extent I admit that he is not a monopolist

5636 (Chairman) May I put it to you that your idea would be better expressed if instead of calling him a monopolist you said that he had undersold all possible competitors?—Yes

5637 (Mr. Gullan) That is rather a different point?—There is no competitor, though, except the Government, because there is nobody who can supply the rupees, even if they are coined and supplied in India in exchange for sovereigns, there is only one supplier and that is the Government

5638 (Chairman) But the Government has bound itself?—The Government has bound itself, has undertaken, to supply rupees

5639 (Mr. Gullan) I will ask you now another point in the same connection. In paragraph 7 of Part II of Appendix XXI (pp 556-7), you refer to the interference of the Council bill system with foreign exchanges. Is it your view that the sales of Council bills within the Secretary of State's requirements have that effect?—I would not in those circumstances describe it as an interference; they would affect exchange, of course, because the Secretary of State is such a large drawer on India. In so far as they are for his legitimate requirements in this country, I should not describe them as an interference. It is only when he commences to draw in excess of his legitimate requirements in this country, that I describe the transaction as an interference

5640 So that this reference to interference in this paragraph which I have quoted was based on the fact that in your judgment he has drawn in excess of his requirements?—Yes

5641 I merely wished to make that clear. I think you said something about sales of Council bills depressing exchange?—Yes sometimes

5642 That is their natural effect?—Yes

5643 Suppose that the Secretary of State had in particular cases refrained from selling Council bills for the time being, that would have a good effect on exchange would it not?—Yes, it would stiffen exchange

5644 But assuming always that he is not selling outside his requirements, he would at some later date have to sell so much the more?—Yes, he would have to put himself in funds either by sales or by receiving specie

5645 Assuming that he sold this sum later on, at that time *pro tanto*, the effect would be to depress exchange?—I am not quite sure about the *pro tanto*,



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because at the other seasons of the year trade may be very brisk, and there may be an immense demand for money, and if the Secretary of State sells when there is an immense demand for money, he does not depress exchange so much as if he sells when there is a very small demand for money. Therefore, while there is a tendency to depression, I cannot say the tendency is *pro tanto*.

5646 I do not say that one could follow it out quantitatively, but you do not think it would have an equal effect in the opposite direction?—No, it would not have an equal effect.

5647 I understand that in a bad season he would get a lower rate, but would not the amount on the market have exactly the same effect in the one direction that it had in the other direction?—If the amount that he put on the market corresponded exactly with the additional demand, yes.

5648 Now I come to the amount sent home to meet the requirements of the Secretary of State. I think you have more or less agreed, in answer to Mr. Keynes, that, taking the period as a whole, there has not been sent home more than the Secretary of State actually in the long run needed or spent?—I would be inclined to put it, that, having sent home very much more than he has required, he has successfully managed to get rid of it in legitimate ways.

5649 Very well, I will come to that later on. I must ask you what you exactly mean by home charges when you say that the sales of Council bills should be directly limited to the home charges?—Do you desire me to define home charges?

5650 I will put it in this way. Do you mean the home charges year by year?—Yes.

5651 The home charges of a particular year?—Yes.

5652 If the home charges this year are 20 millions, he has not to remit home 21 millions, is that your position?—Yes.

5653 How would you treat exchange by Council bills over a series of years, taking good and bad together? In a famine year you said that you would bring home sovereigns?—Yes.

5654 At a rate equivalent to 1s 3d and, I suppose, 1½?—Thereabouts.

5655 It is not, in your view, wise finance to anticipate a possibility of that kind?—Quite so.

5656 It is not wise finance in your opinion?—No, it is not wise finance.

5657 It is not?—Not to anticipate, not to force exchange down to specie export point in anticipation of a famine year, which I consider is the policy that the Secretary of State is now following. I will take an example from to-day's position. The Secretary of State is now selling at below 1s 4d for no conceivable reason that I can think of except that he has habitually done it before for several years and he is doing it again, but not for any reason that I can discover.

5658 In your opinion, is it not wise of him to take advantage of a strong exchange or of favourable seasons in order to get his money home? You would risk everything and leave anything that he requires to be brought home in the course of the year, whatever that year was?—I would risk each year—take each year as it stands.

5659 About the way in which the money is being used—that is a matter you referred to just a moment ago. Sir Robert Chalmers put to you some figures yesterday, and I think Mr. Keynes also brought it out this morning, showing how it has been used?—Yes, that is so.

5660 Would you not agree, in view of those figures, that the Government of India have, as a matter of fact, succeeded in keeping up a very reasonable programme of public works, and at the same time have avoided borrowing to any large extent?—I think the programme of construction which has been carried out is on the whole not unsatisfactory.

5661 And that has been done with very little net borrowing?—It has been done on the whole with little borrowing certainly.

5662 Incidentally, that is a result which has been obtained only by reason of these large balances which the Government of India have held?—Yes.

5663 To that extent, would you agree that the existence of those large balances has had a beneficial effect?—Yes.

5664 You say in paragraph 10 of the first part of your memorandum that the policy of constructing reproductive capital works in India "does not appear to have been actively developed" (page 553), I do not quite understand what you mean by that sentence?—That sentence is based upon the fact that there has been a strong agitation from Bengal and Bombay that the amount spent on railway works has not been sufficient. Although large amounts have been spent, there is a consensus of opinion in Bengal and Bombay that the amount has not been sufficient. The fact remains that although in this connection the Railway Finance Committee in 1907-8 recommended 12½ millions annually to be spent on railways, that amount has never been spent.

5665 I quite agree?—Therefore, although large amounts have been expended on capital works, I do not consider that sufficient has been expended.

5666 Would you have been inclined then, taking the general financial outlook into consideration, to spend more?—Yes.

5667 In the present year's programme of railways and other works, we have to draw to the extent of no less than 11 millions from our balances—I daresay you noticed that in the financial statement?—Yes.

5668 Supposing you had spent more money in previous years on railways or any other objects, what would have been the result this year? I put it to you that there would have been two alternatives—either you would have had to drop very much of your railway programme, which I presume you would admit would have been very unfortunate, or you would have had to borrow very considerably in the London market?—I do not see it in that way at all. It appears to me that if the railway programme had been more completely carried out in the years gone by, there would not have been the necessity to spend so much on it now.

5669 (Sir Robert Chalmers) You think it is finite, do you?—No, not finite.

5670 (Mr. Gillan) It is only the last two or three years I am considering?—I understood the question to be that if this money had been spent in the past it would not be available to spend now, and my reply to that is that if it had been spent in the past there would not have been so much necessity for spending it now.

5671 We have been keeping up a programme of about 9 millions or 10 millions, and this year we have increased it?—Instead of the 12½ millions recommended by the Railway Finance Committee, that is to say, the Government of India's programme has been several millions short of the recommendations of the special committee who were formed to advise the Government in that respect—their actual work has been considerably short of the recommendations of that committee, although the work has been large.

5672 What I was putting to you was that if we had spent all the money in the last two or three years we might have had to drop from this programme not say, 10 millions, but a great many, perhaps 5 or 6?—Such a thing is conceivable.

5673 Do you not think the Government were, as a matter of fact, well advised in keeping a little money in hand, so as to maintain a steady programme instead of jumping up and down by millions?—I think it is possible that had I been responsible for the railway programme five years ago, I might have acted exactly the same as the Government have done, but the fact remains that circumstances have proved that it was not adequate.

5674 (Lord Kibricksen) You tell us that, generally speaking the Government of India and the Secretary of State have erred by excess of caution and unwillingness to take risks?—Yes.

5675 You say that, I suppose, speaking as a business man?—Yes.

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5676 In other words, you apply to this question the principle which would govern a merchant in managing his own business, and looking at it from that point of view, you think that the Government has been over cautious?—Yes

5677 Or pessimistic, as you say?—Yes

5678 A merchant who wants to succeed in business has, I suppose, to take risks pretty often?—Yes

5679 Do you think that a Chancellor of the Exchequer or a Finance Member of the Council, with all his responsibilities for the affairs of a great country, should act on the same principles as a private individual who is trying to make a fortune in business?—Not exactly the same

5680 Does it not come to that?—It is a matter of degree. I would not suggest that the Government should conduct their business on exactly the same lines as a private firm who are paying a dividend, but I think if they moved a step or two in that direction it would be a good thing

5681 You admit that there is a very considerable difference?—There is a difference certainly

5682 And that the principles, in other words, which guide them should not be the same?—Not identically the same

5683 (*Mr Keynes*) In answer to one of my last questions you said that if the Secretary of State fixed 1s 4½d as the rate for his bills he would sell about the same amount each week as he does now?—I think so

5684 At present he sells some bills every week?—As a rule, yes

5685 No one will buy from the Secretary of State at 1s 4½d if the rate in the outside market was below this?—If the gold import point was below it

5686 If the exchange rate in the outside market was below it?—That is right

5687 Therefore you hold that if the Secretary of State pursued the policy you recommend, the rate in the outside market would never be below 1s 4½d?—It would only be below on those occasions when the balance of trade turned against India

5688 But in ordinary years it would never fall below 1s 4½d?—I think so

5689 It is therefore your considered opinion that if the Secretary of State announced he would not sell bills below 1s 4½d, then in normal seasons exchange never would fall below that rate?—That is so

5690 (*Chairman*) Now we will turn to Part III of Appendix XXI (pp 557-9), if you please. The principal recommendation that you make in that part is that the Bombay mint should be opened at once to the free coinage of sovereigns, I think?—Yes

5691 Will you please explain to me what advantages you think the opening of the mint would bring to India?—One advantage, in the first place, would be that movements in the foreign exchange would be regulated automatically—it would facilitate their regulation automatically. The other advantage is that it would also facilitate the growth and development of a gold coinage

5692 Taking the first point I do not quite follow you meaning when you say that it would facilitate the automatic regulation of exchange, in what way would it do that?—It would enable the public at all times to present gold for conversion into sovereigns whenever they required them, and would therefore give them another means of putting themselves in funds, in cash, than at present exists

5693 Am I to understand that the advantage in that respect would be derived from the facility for coining the gold which is now in India?—That is one of the advantages

5694 What would that gold be? Do you suppose that the produce of the Indian mines would, if such a mint were opened, be tendered for coining in Bombay?—I think so

5695 I think we have had it on the authority of the Indian Government that some time ago they found that the mines were under contract to send their gold to England?—That is so

5696 They have large dividends to pay in England?—Yes

5697 Do you think the inducements to them,

under those circumstances, to send gold to the mint in Bombay would be large?—If the mint were regulated on the same excellent principles that regulate the London mint, yes

5698 Even though having these large sums to pay in England, you think it would pay them better to have their gold coined in Bombay than to send it to England?—Yes, I should think so

5699 At any rate, that is one of the sources on which you count?—Yes

5700 Do you think that much gold would be produced from the hoards?—I do not think that the effect of a mint would be suddenly to draw gold out of hoards, but in times of danger and emergency it would afford a means of turning the savings of the people in the hoards into money

5701 Rapidly?—Rapidly. In past famines and in past times of trouble, metal has been produced from hoards, and I think a similar experience would occur again

5702 May I take it that you do not anticipate that it would add very much to the amount of gold coinage in India, but you think on the whole it would have that effect?—Yes, I think so

5703 You propose, I take it from what you have said, that no seigniorage should be charged on the gold coined at the mint?—Certainly not

5704 Sir Robert Chalmers points out to me that in the first paragraph of this section of your memorandum (page 557) you quote the Indian Currency Committee's recommendation (section 54) "that the Indian mints should be thrown open to the unrestricted coinage of gold on terms and conditions such as govern the three Australian branches of the Royal Mint." Those terms and conditions do include seigniorage, perhaps you are not aware of that?—I was not aware that there was any seigniorage charged in Australia. As far as I remember, I think a charge was made for maintaining the mint but I did not know there was a charge in the form of seigniorage

5705 At any rate, I am to take it that it is an essential point in your proposal that no such seigniorage should be charged here?—Yes

5706 The principal advantage which you would expect to derive is that you would increase the amount of gold coin in circulation?—That would be one of the tendencies

5707 Is there any other advantage?—The advantage is that the country would be fitted with what I regard as an essential part of its monetary mechanism. I regard it as an essential part of its currency mechanism that it should have a mint at which money could be coined at the requisition of the public

5708 I want to get exactly at your reason why that is essential. Am I right in thinking that you consider it essential to a proper currency system that there should be a gold currency?—Yes

5709 And essential to a gold currency that there should be a gold mint?—Yes, on the spot, in India itself

5710 It has not been found essential everywhere—in South Africa, for instance, where you have the largest production of gold?—There always was a mint there, I think until we closed it

5711 There is no mint at present. There was a Transvaal mint, you mean?—Yes. I cannot conceive why a mint has not been opened in South Africa

5712 (*Sir Robert Chalmers*) You are not aware of any large and definite demand for a mint from South Africa, are you?—No, not beyond the demand that I myself endeavoured to stimulate when I was in South Africa

5713 (*Chairman*) As you put it, it seems to me that it is really rather for the perfection of a theory than for any very definite practical advantage that you can point to, that you advocate the opening of a mint for the coinage of gold. What I mean to suggest is, that the only practical advantage you have suggested is that it would increase the number of sovereigns in the currency?—It would do away, in a measure, with the management by the Secretary of State of the foreign exchanges in that there would be

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always the mint at which the public could convert their gold into legal tender coins in the event of the Secretary of State taking any action of which the public did not approve. It is a safeguard, so to speak, an additional safeguard, that the people of India can on the spot obtain their own money on presentation of the metal.

5714 Regarding them as an additional safeguard of exchange, the sovereigns coined at the mint must be exported, must they not?—Not necessarily.

5715 How would they support exchange without being exported?—The actual support is not exercised until the time comes for their exportation, but the fact that they exist and can be exported when needed, is a sufficient practical support to exchange. It establishes confidence.

5716 That is to say, if I understand you rightly, the more gold you have in circulation in India, the greater the reservoir on which you have to draw for the support of exchange in a time of crisis?—Yes, and if the tap to that reservoir is in your own possession and can be controlled by yourself, you feel still more confident.

5717 The moment you need to export sovereigns for the maintenance of exchange, would sovereigns have any advantage for that purpose over bar gold, or other forms of uncoined gold?—Very little.

5718 So that if bar gold was hoarded in India and came out in a time of crisis, it would be equally as available for the support of exchange in that form as it would be if it came out of the hoards in the form of sovereigns?—Yes, to a large degree.

5719 Now with regard to the gold in circulation in India, do you think that it is very effective for the purpose of supporting exchange?—It is most effective.

5720 Do you think that in a time of crisis it would go to the support of exchange?—Unquestionably.

5721 You do not think that at such a moment there might be an increased instead of a diminished tendency to hoard?—I do not think so.

5722 Do you think that gold in circulation is as effective for that purpose as gold in the Secretary of State's reserves?—No, it is not so effective.

5723 For every 100l in the reserve there is 100l which directly supports exchange. Is that not so?—If the gold is freely in circulation it is an additional support to the reservoirs in the Government's possession and in the possession of the banks. Everybody has his own reservoir, so to speak.

5724 If a million were in circulation, some proportion only would go to support exchange?—Yes.

5725 Whereas if a million were in the reserve, the whole would go to the support of exchange?—If it was required, and if it was used.

5726 To that extent gold in circulation is less effective for the maintenance of exchange than gold held in the reserve?—Yes.

5727 Do you regard a gold currency as desirable in itself, apart from its particular effect on exchange?—Yes.

5728 You do not regard it as rather a wasteful form?—No, I do not think so—not in India. It is wasteful in highly developed countries, but not in India.

5729 For what reason?—Because India is not so far advanced, and her circumstances in regard to trade and commerce are not similar to those of this country. A very large proportion of the population cannot read or write, and therefore are quite incapable of drawing cheques, they live far from railways, and altogether there are very many reasons for the use of a full value metallic currency in India which do not exist in this country at all.

5730 Would you go so far as to say that to the extent to which the population can be induced to use their currency notes or silver, it is a cheaper and better form of currency than gold?—No, I would not say that, speaking from the point of view of India, I would not say it was better.

5731 (Sir Robert Chalmers) Is it cheaper, was the question?—No, certainly not, unless the notes are supported by securities and not by metal.

5732 (Chairman) Now I want to refer to a subject with which you deal in Part III, paragraph 7 (c), of Appendix XXI (page 558), and on which we touched yesterday. You say that fresh rupees should not be coined until the proportion of the gold in the currency is found to exceed the requirements of the public?—That is so.

5733 I asked you yesterday, but I do not think I got a very clear answer from you—perhaps I did not put my question well—what is your test for the needs of the public? How would you test those needs?—The test I should take would be the requirements of the traders for money to carry on their trade, European and Indian. That would, no doubt, find its expression through the banks.

5734 But not its whole expression through the banks. For instance, the Government must have sufficient rupees for the encashment of its notes?—Yes, rupees and sovereigns.

5735 It must be prepared to give rupees in exchange for sovereigns whenever they are tendered?—So long as it accepts that responsibility. It is a self-imposed responsibility.

5736 It must also have rupees to meet Council bills?—If rupees are demanded. Rupees may not necessarily be demanded. In my part of the world I am quite sure that some export firms would as soon receive sovereigns in payment of Council bills as rupees.

5737 To the extent to which rupees are demanded for any of those purposes, the Government must be prepared to meet it?—Yes.

5738 Would you be surprised to learn that those are the tests which the Government of India apply?—No, I am not surprised. I know it is the test, and I think I have drawn attention to the fact that although Government had decided on one policy, then attitude appears to be. After all, if the people do not want a gold policy, we will not press it.

5739 That brings me to another point. I think you call our attention to the view of the Currency Committee that "when Government has accumulated a sufficient gold reserve, and so long as gold is available in its treasury, it might discharge its obligations in gold instead of rupees."\* Is that what you are alluding to?—Yes.

5740 I will just pause at that point to ask you. Do you think the Government has accumulated a sufficient gold reserve already?—Yes.

5741 In this country, or do you mean the total?—To carry out its obligations in India in gold—do I understand the question correctly?

5742 I mean for all purposes?—For local purposes in India I think sufficient gold has been accumulated in India to enable the Government of India to carry out its obligations in gold.

5743 Without trenching upon any gold required as a reserve for the maintenance of exchange?—Yes, certainly.

5744 You seem to me to translate the opinion of the Currency Committee, that when that state of affairs has been reached the Government might discharge its obligations in gold instead of rupees, into an injunction to the Government of India so to discharge it?—Yes.

5745 You quote with disapproval the expression of policy of the Government of India that "while refraining from taking any steps to force the gold on the people, they discharge their obligations in sovereigns wherever 'payees so desire', or, in other words, that they give the payee what he asks for."—Yes.

5746 Your opinion is that they ought, if I may use the expression, to force the gold upon him?—I do not like the word "force." My view is that if Government intend to establish a gold currency, they should take reasonable steps to carry out that policy, and not pause at every step in the policy to ask everybody if they want it carried out or not.

5747 Suppose the Government had come to the conclusion that there was no reason for establishing a gold currency, as exchange was being maintained without it, and could be so maintained, is there any reason then why they should attempt to press upon the public something which the public *ex hypothesi* does

\* Report of Indian Currency Committee of 1899, paragraph 39 (C 9390)

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not demand?—I should think Government had come to a wrong conclusion in those circumstances.

5748 So that your criticism on all this part of their policy is that it is their duty to establish a gold currency?—Yes, as recommended by the expert committee especially appointed to advise them in this matter, as accepted by the Secretary of State, and as accepted by the Government of India.

5749 Have you any reason for desiring the establishment of a gold currency beyond the additional support that it would give to exchange?—Yes. I think it would add immensely to the credit of the country generally if a gold currency were in circulation, and if the world generally understood that the currency of India was on exactly the same footing as the currency of England, and that there were no further currency risks in dealing with India than there would be in dealing with Australia or Canada. I think that would be a great gain to the credit of India.

5750 That really comes back to exchange again—to the support which such a currency would give to exchange?—Yes.

5751 You do not think the other measures taken by the Government of India and the Secretary of State are sufficient to give that public sense of security in the maintenance of exchange?—No.

5752 In paragraph 8 of Part III (page 558) you say "If the Government 'put their hearts' into this business, to use Professor MacLeod's expression, India will very soon have a gold currency in active circulation" and "the exchange value of the rupee will be as permanently secured as the exchange value of the English shilling, or the French 5-franc piece, or the silver dollar of the United States of America, and that, too, without the necessity of maintaining any Gold Standard Reserve"?—Yes.

5753 Do you mean that under those circumstances there should be no reserve in existence, or do you only mean that whilst it would be wise to have a reserve, there would be probably no call upon it?—I mean there would be no necessity to maintain what is now known as the Gold Standard Reserve. I mean that there would be sufficient gold in the possession of the banks, in the possession of Government, and in the possession of the public, to support exchange without extraneous assistance from what is now called the Gold Standard Reserve.

5754 You think that the banks would accumulate something in the nature of the Bank of England gold reserve?—I think everybody would have to hold gold, and the metallic portion of the reserves against the paper currency would be almost wholly in gold. There would be therefore plenty of gold available to support exchange without the assistance of what is now known as the Gold Standard Reserve.

5755 (Lord Faber) As regards this very important question of maintaining the gold reserve, at present I suppose you think it is quite necessary to have a Gold Standard Reserve?—I think it is desirable to have a Gold Standard Reserve now until a gold currency has been thoroughly established throughout the whole of India. It is not so necessary now as it was five years ago.

5756 You would agree, I think, in believing that the very fact of having a Gold Standard Reserve renders it unnecessary to use it; the public are so satisfied with the condition of the reserve to maintain gold payments, that they will not come for gold as they would do if there were no such reserve?—The public will never come for gold until the balance of trade turns against India and when the balance of trade turns, they will come for gold. I do not think they are influenced, or can be influenced, by any other consideration than the balance of trade. Of course, with the existence of the Gold Standard Reserve at present, there is more confidence than there would be without the existence of that reserve.

5757 (Sir Robert Chalmers) In paragraph 7 of Part III (page 558) you put most strongly that it is "weak and unbusinesslike" for the Indian Government to consider what the Indian public desire. Do you quite stand to that expression of opinion, or do you modify it in any way?—Not in the slightest in this connection.

5758 A bold autocracy would be your line?—In this connection, yes.

5759 Coming down to gold in the possession of individuals, you lay great stress on that, but do you think that the possession of gold in the form of coins in the pockets of individuals is a real strength to exchange which you can depend on when a crisis comes?—It depends on the nature of the crisis. If the crisis means the failure of the rain and the crops in India, leading to a reversal of the current of trade, yes I think so, certainly.

5760 Have you got any support for that view in past history? Before you answer I will indicate what we have received in evidence—in the crisis of 1907–8 the Paper Currency Reserve lost 4½ millions of gold, which all went into circulation and, on your hypothesis, would have strengthened exchange by being available for support?—I do not think a parallel can be drawn from the example of 1907–8, because, owing to the terribly bad management on the part of the Government, they themselves depressed their own exchange down to such a point as to make it profitable to the public to hoard sovereigns.

5761 As a matter of fact, out of that 4½ millions only about a quarter-of-a-million came home, are you aware of that?—Yes.

5762 Therefore, that experience does not show that the passage of sovereigns into currency at any rate necessarily supports exchange and supports it in the hour of need?—That example affords no support to that theory in the slightest. May I be permitted to say that on that occasion the moment that I personally required sovereigns I went to the Treasury and asked for them, and the Government declined to give me sovereigns? I went to Bombay and the Government declined to give me sovereigns. I went to Calcutta and had a long talk with the Finance Minister, and I pointed out to him that he himself was breaking down exchange by omitting to let go the sovereigns. Still the sovereigns were not let go for several weeks. Government themselves, by their own action, created that feeling, that lack of confidence, which led to sovereigns being hoarded. It was Government themselves who destroyed their own scheme.

5763 When you get the alternative of payment in rupees or in sovereigns, do you not think that, in a time of crisis, there would be a tendency to pay in the less valuable form?—Not the slightest, if there is gold in circulation throughout the country, but if there is insufficient gold, or if there is a lack of confidence in the action that Government will take, then gold will assuredly be hoarded, but if gold is fully in circulation if the metallic reserve of the paper currency consists wholly of gold and if Government make it quite clear that they are not going to let exchange down themselves, then I think no tendency to hoard sovereigns, or to pay in rupees, would arise.

5764 Do you still attach importance to the possession of gold in the form of sovereigns by the people?—Yes, very much.

5765 Do you remember the late Lord Goschen took rather the opposite view in the speech he made at Leeds some years ago?—Yes.

5766 He spoke, I will not say with disrespect of waistcoat pocket gold, and indicated his belief that when you wanted it it was not available?—That is so.

5767 You are aware of that fact?—Yes. I think that Lord Goschen's view was perfectly correct in respect of this country, but I think the circumstances in India are entirely different. The circumstances in India are these, that if there is a failure of the crops in a certain portion of the country, money has to be produced to remedy this state of affairs, and if the savings of the people are in the form of sovereigns, if the hoards are in the form of sovereigns, they have to be brought into the market, and so money flows into the market and will flow into the banks. But the conditions are altogether different in this country where everybody recognises that the gold reserves are very slender, and where, in a time of crisis, there would be a tendency for everybody who was ignorant and ill-informed to hoard gold.

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5768 Do you think there would not be that tendency in India?—No.

5769 (Mr. Keynes) You say that sovereigns are now in circulation to the extent of over 40,000,000 in India, is that approximately the figure of the total absorption of sovereigns by the public since 1898?—The source of that figure is the last report of the Paper Currency Department of 21st December last, and the extract is as follows: "The latest estimate of the number of rupees in circulation is 180 crores, and the figure for gold may be taken to be 60 crores. The growth of the circulation of silver has not kept pace with the growth of the circulation of gold." Those are the figures dealing with the current amount of the currency in circulation, silver and gold, which I have taken from the last official report of the Paper Currency Department.\*

5770 Is that an unpublished report for the year 1912-3?—This is for the year 1911-2, and was issued on 21st December 1912. This is an article of my own from which I am quoting the words of the Comptroller-General of Paper Currency—not the report itself.

5771 The only figures I know are the figures of the absorption of sovereigns which are given in the return you speak of, and 40 millions is the approximate figure of absorption since 1907-8?—It is described in the return as the figure for "gold in circulation" which "may be taken to be 60 crores." If the report could be produced I have no doubt I could easily find the passage.

5772 (After examining the report which was produced) I think I am right. If the figure be taken in its context it appears to be that of the absorption. The figure is obtained by adding up the sovereigns which have left the Government treasuries and have not come back in the period since 1907-8. It includes, therefore, those sovereigns which were in hoards and those sovereigns which have been melted. You would not maintain, would you, that the 40 millions were in circulation in the sense that they were being used as currency?—I have only the report to go upon. They are in circulation very freely in that part of India with which I am most familiar—West and Northern India, they are in everyday circulation there quite freely.

5773 Forty millions is the same circulation as the notes and about one third of the rupee circulation. You will agree that there is no experience which would justify any such estimate if you interpret "in circulation" as meaning "used as currency"?—The report I have just quoted gives the rupees in circulation as 180 crores.

5774 Perhaps I might read it. In the report there is a table which shows the amount of sovereigns which are issued from the Currency Department each year, and the amount which are returned to it. The balance which leaves the Currency Reserve is called the absorption. Those figures are added up on page 13 of the return to which you refer, and the word "absorption" is constantly used, but I see that it is the absorption of a longer period than I said. The absorption taking these figures, appears to have been 46 crores between 1905-6 and the date of the report, and the 60 crores seems to be made up by an allowance for previous years. These figures, therefore, include the sovereigns in hoards and those sovereigns which have been melted. The words "in circulation" are, I believe, intended in this passage to mean "taken in absorption," and you would not maintain, would you, that it is at all probable that they could mean more than that?—I have no information to go upon other than the words extracted from the official report. If the official report has printed "circulation" for "absorption," it may be so.

5775 But you have no other evidence whatever?—No evidence other than that Paper Currency Report.

5776 You argue that the Government should put their hearts into the business of urging on a gold circulation?—Yes.

\* Published in Gazette of India for Saturday 21st December 1913, pp. 3235-344.

5777 Do you mean by that that they should refuse rupees to those who want them?—No.

5778 You say they acted weakly in only giving sovereigns if the Indian public so desired, and then you go on to complain of them because they have only taken the step of discharging their obligations in sovereigns wherever the payee so desired?—Yes.

5779 You do not imply by that that you want them to give sovereigns where the payee does not so desire, do you?—No.

5780 It is only in those cases where the payees are really indifferent that you urge that the Government should give sovereigns?—Quite so. A large number of the payees are perfectly indifferent, and if the cashiers of the Government, or the Treasury officers, handed out sovereigns, I think they would be quite content with them.

5781 Is that as far as you want the Government to go?—Yes.

5782 I thought in answer to Sir Robert Chalmers you rather implied that you wanted to go further than that, and that you wanted to force sovereigns?—I do not like to use the word "force." I would not say to a merchant who came to my office and said, "Will you please pay me in rupees?" "No I insist on paying you in sovereigns," but I might try to persuade him to take half in sovereigns and half in rupees, and in that way induce him to take a certain number of sovereigns. A similar line of conduct might be adopted, I think, by Government officers.

5783 If that policy were followed, you think we should very soon have in active circulation 100 millions?—I think that is quite possible.

5784 Do you include in that 100 millions, gold in the reserve of the Paper Currency?—No.

5785 You mean 100 millions in the pockets of the people at the banks, and at the treasuries, apart from the Government reserves of gold?—And, let us say, in hoards.

5786 And in hoards?—Yes. The people of India are not always equipped with pockets, and it is quite a usual thing on the part of a native of India to keep his money in his house. Sometimes for the sake of security he buries it in the ground, and it is then generally referred to as a hoard, but what the native has in the ground under his bed is exactly the same as what we should carry in our pockets or keep in the house. The word "hoard" has a very misleading effect upon people who are not familiar with the customs of the country.

5787 I quite agree that you cannot draw a sharp distinction between circulation and hoards. Taking your figure of 40 millions, which I do not accept, as the present figure, that would represent an addition of 60 millions?—Yes.

5788 Do you imagine this would be chiefly at the expense of notes or rupees? Which would it take the place of?—I think it would largely take the place of rupees. It would not wholly take the place of rupees, but it would supplant rupees, I think, to a certain extent. There would be an additional growth of metallic currency habits as well to be taken into consideration, there would be a growth of the opportunity of the use of metallic money generally.

5789 So we should find Government with perhaps 60 millions of rupees on their hands, because I presume you are not assuming this would circulate as well as all the rest of the rupees?—It would take many years to do this, and of course the rupee circulation would have to be used up by degrees.

5790 In your memorandum you say "very soon"?—Yes.

5791 I am not quite clear about this: Is the 60 millions of additional gold to be wholly additional to the rupees now in circulation, or is it to be in diminution of the rupees in circulation?—I think it is largely additional.

5792 All the present rupees will still be in circulation?—Not all the present rupees because large quantities go over the frontiers, to East Africa, and to different parts of Central Asia, and so get out of sight. Nobody knows what becomes of the rupees, they constantly disappear.

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5793 The total circulation of India is variously estimated, but I suppose that nobody would put it at above 160 millions sterling. Would you put the present circulation at about that, let us say, 250 crores of notes and rupees together?—I have not been accustomed to mix the notes with the rupees.

5794 Then let us take them separately?—Taking the rupee circulation, I should think it might approximate—

5795 To 200 crores?—Yes, I should think so—more even.

5796 Say 130 millions sterling. You are supposing an addition to the currency of 60 millions, allowing for the fact that the currency has been very greatly increased—and you rather criticize that—lately, how long do you think it would take India to absorb another 50 per cent?—Possibly seven years to 10 years.

5797 You think seven to 10 years?—Yes.

5798 There has been a very exceptional increase of currency since 1900, has there not?—Yes.

5799 It has not amounted to such a high proportion as that?—India is advancing very rapidly indeed, and the extension of irrigation and the spread of railways is leading to trade developments, so I think she will require a great deal more currency in the near future than has been used in the past.

5800 You policy is based on these two assumptions—first, that approximately the existing number of rupees will remain in circulation, and next that, in addition to those India will in seven to 10 years absorb 60 millions more of currency?—Not that the present amount of rupees will remain in circulation, because there is a constant disappearance.

5801 Apart from natural wastage?—The natural wastage and disappearance are continually going on. I anticipate that these 60 millions will be added to the currency in gold.

5802 I come now to the question of the reserve. Do you think that, even although the present circulation of rupees remains—when I say the present circulation, I mean reduced by natural wastage in the course of many years—the Government would not still be wanting reserves?—What kind of reserves—the reserves in the Paper Currency Department or the reserves in the Gold Standard Reserve?

5803 I am thinking of the Gold Standard Reserve?—I think when this amount of gold has entered the country the Gold Standard Reserve will be altogether unnecessary.

5804 India would still be in a different position to other countries if she had 100 millions to 150 millions worth of tokens in circulation, would she not?—I do not know. She would not be very different from France and the United States, who have a very large silver token currency in circulation.

5805 But nothing like that?—I forget exactly what the amount is, but they have a large silver token currency.

5806 In the case of the United States the amount of gold that they have is, as you know, enormous?—It is.

5807 And quite out of proportion to the sort of figure you are suggesting here?—Quite out of proportion.

5808 In the case of France it is also very much bigger than you are suggesting?—Yes.

5809 So there would not be a parallel?—The two cases would not be identically similar, they would only be roughly similar, in the sense that there would be a large token currency floating about.

5810 I think I have got the premisses of your proposals rather clearer now. I should like to pass on to your contention that if such a system is to be established, as I now understand you to wish, the system will be more stable than it is at present. You are supposing that out of a total currency of perhaps 250 millions 100 millions would be of gold, is that correct?—Yes, approximately.

5811 There was a further point put that I should like to refer to. I suppose that the sovereign in India is in respect of the purchasing power of the people equal to about a 5*l* note in England—I do not mean it is

that exactly, but a sovereign in India is a large amount?—I do not quite follow the drift of that question.

5812 The drift of the question is this. Do you think that out of 250 millions, part of which will be in notes of high denominations, so much as 100 millions would circulate in coins of so high a denomination as the sovereign?—Yes, if by the word "circulation" you remember that I include hoards.

5813 Semi hoards we will call them?—Yes, the semi hoards of the people.

5814 We have a circulation of which, including hoards, 100 millions is gold, 120 millions we will say rupees, and perhaps 30 millions notes. A serious crisis arises in which some part of the circulation is returned to the Government, you would not maintain that only gold would be returned to them, would you?—It depends on the nature of the crisis.

5815 Whatever the nature of the crisis it would not be all gold?—No, probably not.

5816 If it were a crisis in which confidence were shaken in any respect people would rather keep the gold instead of the silver, would they not?—There might be that tendency no doubt.

5817 The Government could not therefore rely upon not having at any rate some important number of rupees returned to them?—Certainly.

5818 And it would have to maintain reserves by which they could cash rupees in terms of the sovereign?—If they maintain their present legislation.

5819 Under any system?—No. It is quite conceivable rupees might not be legal tender over 1,000 or 500.

5820 Would you allow the rupees to sink to a discount?—Such a thing is conceivable.

5821 Your proposal does include that, does it? You would not take steps to prevent rupees, which were circulating in our hypothetical case to the amount of 120 millions, from falling to a discount?—I cannot conceive any circumstances when 100 millions of gold is in circulation in India in which the token coinage would fall to a discount.

5822 If there were any surplus of rupees which people wanted to get rid of rather than get rid of sovereigns, the rupees would be at a discount, would they not?—I could not imagine such circumstances with such a large gold circulation.

5823 You have admitted that the Government would have some rupees returned to them?—Possibly a very large number.

5824 That is to say the people would, to a certain extent, prefer to dispose of the silver?—Yes, some people would.

5825 If there were no facilities for their doing this, the silver must fall to a discount?—If the crisis were of such a nature that enormous numbers of people wanted to turn rupees into sovereigns, such a thing is conceivable. I do not think it would ever happen, and I cannot imagine it would happen, in practice, but as a theoretical problem such a thing is certainly conceivable.

5826 You would not recommend the Government to take any steps to guard against the possibility, then?—No.

5827 With reference to the Gold Standard Reserve, in paragraph 8 of Part III of Appendix XXI (page 558) you have described it as wasteful. You are aware that the Gold Standard Reserve was wholly built up out of the profits of the silver circulation, are you not?—It was originally built up out of the profits of coming silver.

5828 So that if the silver had not been coined, you can say if you like there would have been no need for this reserve, but it would not even have existed?—If the present legislation did not exist, the Gold Standard Reserve would not have existed.

5829 So the present system pays for itself?—I do not understand how a currency system can pay for itself. I do not quite know what that means.

5830 I mean simply that the expenses of maintaining the reserve are met wholly out of the profits of the coinage, and do not form any additional charge?—There is no expense in maintaining the coinage. I do not understand what that means at all. The effect of coming a large number of rupees and cir

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culating them at a value very much above their face value, has left in the hands of the Government a large accumulation of money, but I do not know how you could describe that accumulation of money as providing a currency free of cost, or as maintaining the cost of the currency.

5831 I was trying to get at what you meant by calling the Gold Standard Reserve wasteful?—May I ask which paragraph you are referring to?

5832 Paragraph 8 of Part III, page 558?—It would become wasteful in the sense that keeping any metallic reserve is wasteful, the holding of any metallic reserve is a waste of money.

5833 (*Sir Robert Chalmers*) Like the gold reserve in the Bank of England?—Yes, in a sense that is wasteful.

5834 (*Mr Keynes*) If the reserve were brought into existence through the existing system of currency, you cannot call this system wasteful as compared with a system in which the reserve would not even come into existence?—If it were not wasteful, it would not be wasteful, that is all I can say.

5835 I do not understand how that answers my question?—If a system of currency had not been introduced by which this reserve had been created, I could not have said that the reserve was wasteful, because the reserve would not have existed. When gold is freely in circulation there will be no necessity to maintain a gold reserve at all, that is to say, these 20 millions can be turned to account by being used in reproductive works, and therefore, instead of having a certain portion of it, whatever the metallic portion now is, lying idle, it may then be used profitably.

5836 My point is that these 20 millions or so that you use in this way have only come into existence because your policy has not been followed?—No, I cannot admit that at all. I do not know quite what you refer to as my policy.

5837 I refer to your policy of pushing a gold circulation and refraining from coining fresh rupees. If that policy had been followed in the last 10 years this 20 millions which you propose to devote to reproductive purposes would not exist?—Some portion of it would not have existed, certainly. It would always have been necessary to manufacture a certain amount of token coinage, and to the extent of the manufacture of token coinage there would be a surplus lying in the Gold Standard Reserve.

5838 I only wanted to be clear that you were not proposing to supplant rupees by gold, and at the same time to get the advantage of being able to use your Gold Standard Reserve?—There will be no future reserve, or at least, only a very small one. I would only utilise what already exists. The fact that it is wasteful, I think is generally recognised from the circumstance that Government themselves have invested a certain portion of this reserve in securities.

5839 I want to take up now a point that I have already touched on. In reply to the Chairman you said the main reason for which you wanted a gold currency was to make exchange more stable, and in a further reply to him you said that you do not propose that the Government should take any steps to prevent rupees falling to a discount, though you think it is improbable they would so fall. In those circumstances do you think it is true that exchange would be more stable?—Certainly, I think greater confidence would be felt in the currency if a larger proportion consisted of gold.

5840 If it were known that there was this enormous quantity of rupees, and the Government had taken no precautions to prevent them falling to a discount?—I do not think that would have any effect on the public at all, so long as there was a very large gold circulation.

5841 Now let me compare this as regards stability with the alternative that might exist seven or 10 years hence, if the present policy is followed. I am talking your hypothesis that there is a greatly increased demand for currency—I do not myself think it could possibly grow on the scale you suggest, but assuming there is a considerably increased demand for currency—under the existing state of affairs a certain number of additional rupees would be coined, which would

strengthen the Gold Standard Reserve, and a certain number of notes would get into circulation for the larger payments, and that would strengthen the Paper Currency Reserve. Suppose the circulation is increased by 60 millions, then it would not be extravagant to suggest that the existing reserves would be doubled, because they have actually been built up to their present figure with a less expansion of currency than what you are contemplating. So that as regards stability you have got to compare your proposed state of affairs with 100 millions of sovereigns in circulation or in hoards and a great number of rupees against which the Government takes no precautions, with a state of affairs in which they have reserves double what they have now?—Yes.

5842 Do you maintain that yours is a more stable state of affairs?—I think it is much more satisfactory.

5843 More stable?—Yes, more stable because inspiring greater confidence.

5844 You do actually maintain that at a crisis it would be less likely that exchange would fall under your system than under this one?—Infinitely less likely. If there was a crisis to-morrow, I do not think this gold reserve could be turned to account, or at any rate only a very small portion of it. I am perfectly certain that the portion of the reserves which lies in London in the form of securities would not be realised.

5845 I think that is getting on to rather a different point, you are now criticising the holding of securities?—Yes.

5846 Supposing you compare it with the state of affairs when the reserve is held all in gold?—I find it very difficult to imagine that, at any rate with a Government desiring to put a large portion of it in securities.

5847 That is quite a different argument. As to the alternative between securities and gold, it would be possible for the Government to pursue the main outlines of their existing currency policy, and at the same time to have it all in gold, would it not?—If I am asked the question, supposing the present gold reserves were doubled, and supposing the whole of that gold reserve were held in gold.

5848 (*Sir Robert Chalmers*) The extra portion?—No, supposing the whole of the reserves were held in gold, then, if I understand Mr Keynes' question it would be, do you not think in those circumstances that would establish confidence? I say, yes, certainly, if the whole of the reserves were held in gold. But I am very doubtful whether the Government would hold such a large amount in gold.

5849 (*Mr Keynes*) Would it be more stable than your alternative proposal?—If the gold were existing in the hands of the people or in the banks, then I think my proposal is equally satisfactory, in fact more so.

5850 Although you have admitted that of the amount returned some part might be rupees?—Yes, that is conceivable.

5851 You think that is a consistent state of mind in which to remain?—I think so.

5852 I should now, in conclusion, like to put the position to you in a rather more general way. I think that all thinking people would agree with what appears to be your contention, namely, that for large payments rupees are a very bad medium of exchange, and that it is not a very good thing to have such an enormous currency of expensive tokens as India has?—Yes.

5853 When I look to the future it seems to me that there are two lines on which she can develop—that which you suggest, and a state of affairs in which Government, instead of encouraging gold, encourages notes. I understand from other parts of Appendix XXI that you are not opposed to the note issue, and that you do see some advantages from using more notes?—Yes.

5854 Are you clear that, if you compare a gold future and a note future as alternatives, there are not advantages on the side of the notes from the point of view of economy and elasticity, and not least from the point of view of stability?—There are advantages on the side of the notes, certainly.

5855 Is not your gold policy rather likely to kill a note policy?—I do not think so, unless circumstances

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prove that gold is more suitable to the requirements of a partially developed country like India, than notes. If the gold replaces notes, I think that is proof positive that the conditions of India are such that gold is more suitable as a monetary medium than notes.

5856 You are not proposing to let things take their course, but you are urging that the Government should actively further gold?—Yes.

5857 They could if they like, in the same sort of way that you describe, actively further notes?—Yes.

5858 It might make just the difference into which scale they put their influence?—I think Government influence should be applied in both directions, both in increasing the note circulation and in increasing the gold circulation.

5859 As an alternative?—I do not think so.

5860 There is a great bulk of small purchases, wages and so forth in which only rupees can be used, there is another set of payments in large amounts in which gold could be used, as is the case in Northern India to day, or in which notes could be used as is a good deal the case in other parts of India. It is largely a matter of custom and of habit, and of which is made most convenient by the Government, as to which of those two things happens. Is not gold rather a rival to notes than to silver?—At first it is, but I do not regard it as a rival, looking at the policy generally. Just at the moment gold is likely to compete with notes at first. I regard the currency in this way, the development should proceed step by step from silver to gold to notes, that is the natural development. If I am asked if a note circulation is not the most economical form of currency, I say yes, certainly, once we have stepped over the gold step, we will develop the paper step. At present the conditions of India are such that I think she wants to be taught how to make the fullest use of the gold currency before we go on to the notes, but both are desirable unquestionably.

5861 May I say that that theory of the evolution of money is not an historical one? It has not actually been the case, has it?—I think so.

5862 That most of the nations of the world have gone through those stages?—I think most nations of the world have tried to use both metals, and most nations of the world have given it up as a bad job and concentrated their attention on gold and made silver a subsidiary coinage. I think the most advanced nations of the world have come to the conclusion that paper is still more economical than gold, and are using as much paper for gold and as little gold as possible.

5863 Can you name any country except Egypt in which gold has ever formed the principal means of exchange?—If by the principal means of exchange you include the whole of the nation's transactions, no.

5864 Such a proportion as would be represented by gold, if your policy was successful in India?—I think England is a good example of a considerable use of gold.

5865 But in proportion to the whole transactions it would be a fraction of 1 per cent?—If the whole of the wholesale transactions of the country are concerned, I daresay possibly so, but in India you have 315 millions of people, a very large proportion of whom must handle a metallic currency.

5866 Of course, we all know the state of affairs in England, where the cheque system has made the position of gold and silver relatively unimportant, but apart from that, taking more comparable cases, can you quote any instance which even appears to support your view?—That gold is used more freely than silver?

5867 That gold is used as the principal medium of exchange?—No, I think not.

5868 On any country in which that ever has been the case?—No, I think not.

5869 So that this process of evolution by which you, first of all, use chiefly silver, then chiefly gold, and then chiefly notes, is a theoretical description?—I do not think I said use chiefly silver and then chiefly gold and then chiefly notes; I meant that the experience of modern nations was such that attention was concentrated gradually on silver, and then on gold, and

then on paper. I do not think any country has used gold more than silver or more than paper.

5870 By attention being concentrated do you mean in controversial writings or in the currency?—I mean as a mainstay of the currency.

5871 Where has gold been the mainstay of the currency?—Gold is the mainstay of the currency everywhere in the world as far as I am aware.

5872 Could you mention some particular country?—I cannot mention any country where it is not, for example, gold is the mainstay of the currency in England.

5873 There is an ambiguity in the term, "the mainstay" may mean that the country's reserves are held in gold?—That is what I call the mainstay.

5874 What you are proposing in India is that there should be no reserves in gold?—That no Gold Standard Reserve should be held. I am merely suggesting that this particular amount that now exists, the gold in the Gold Standard Reserve, should not be contained in that form. Of course, there will be gold reserves in the banks and against the paper currency.

5875 I was not speaking of some country in which the reserves were held in gold, but of some country in which the main currency, from the point of view of the actual media of exchange, was gold?—I cannot certainly name a country where, taking the country as a whole and the transactions as a whole, gold money is used more than any other currency.

5876 You are proposing, therefore, a state of affairs in India to which we have no parallel anywhere else?—No, certainly not. I do not suppose gold would be used more as currency in India than any other media of exchange. All over the world the great bulk of the population are poor, and the great bulk of the population use silver coins for currency purposes in all the countries.

5877 I was trying to get at the basis of your theory that there is a sort of natural progression from silver through gold to paper, and I say there is no historical foundation for that view whatever?—History appears to me to support an exactly opposite conclusion, that is all I can say.

5878 As long as Governments were thoroughly untrustworthy nobody liked paper currency but since Governments have become more trustworthy in these matters, all countries have got as quickly to that as they could, leaving out the gold step. Is that not true?—I think the force of circumstances has compelled countries to use paper, not that they particularly prefer it, but I think they have been so compelled undoubtedly.

5879 For whatever reasons, would you say that is a correct account of what has happened?—Yes.

5880 The point of my last few questions has really been simply this—that there is a great deal to support the view that the alternative is not so much gold or silver as gold or notes, and, historically, recent experience on the part of nearly all countries is in favour of notes rather than gold. If you are to put it on the historical basis, or on the experience of other countries, then the answer would be in favour of notes rather than gold. I think you have conceded as much to me as this, that if it were true that it was between notes and gold, you would prefer notes?—Not for India in its present state of development. If I had to select between notes and gold for a currency medium for India in its present state of development, I should certainly advise every Indian to have a gold coin in his pocket and to pay gold and not notes.

5881 What would be your reason for that?—Because I think a country using a gold currency would command very much greater respect in the world than a country which did not use a gold currency, and only had paper and nothing behind it.

5882 There is only one country that has actual gold as the principal medium of exchange, do you think the prestige of Egypt stands higher than that of most nations and countries?—I cannot say that I am sure the prestige of India would stand very much higher if she had a gold currency in free circulation all over the country.



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5883 (*Sir Shapurji Broacha*) I asked you a question about 40 millions of silver coin, and you said you meant 40 millions in rupees and not in gold. I then reminded you that there were only 18 millions of silver taken to India?—I remember, that was in the years 1906-7.

5884 You say in one of your letters that "40 millions left with the world at large for the price of the silver created a plethora of gold in the world and created a boom in the world", so you meant 40 millions of gold?—I do not know from which exactly of my many productions on the subject of the currency Sir Shapurji is quoting. The amount of rupees that were coined from 1905 to 1908 I have described as the heaviest coinage on record in the history of the world. It was over 62 crores of rupees. That figure is drawn from the official records and can be verified.

5885 I am quoting from a letter you wrote in November 1912 to which I replied, and in which I wrote about this 40 millions of gold, but I could not challenge your correction at the time, and so I took your explanation as correct, but now I find that it was not so. You actually said "40 millions left with the world," by which you meant "40 millions of gold left with the world at large for the price of the silver created a plethora of gold in the world and created a boom in the world?"—I am not quite sure what point Sir Shapurji is making. I understand him to mean that in a letter of mine written in 1912 I asserted that 40 millions sterling worth of new silver rupees were brought into existence, and he does not think that 40 millions sterling worth of rupees were brought into existence. I thought it was. I have nothing further to say. I think that if the total currency is increased to the extent of 40 millions, and circulates at that face value, it is equivalent to 40 millions.

5886 (*Chairman*) According to Mr. Abrahams' figure between 1905 and 1908 there were 64 crores added, which is 42 millions sterling?—I wrote "over 62 crores," and probably at the time I wrote I had not got the exact figures. Sir Shapurji is evidently arguing that 42 millions worth of token money is really not worth 42 millions but is only worth 20 millions, which is perfectly true of its metallic value.

5887 (*Sir Shapurji Broacha*) What you have said is that 40 millions of gold was left with the world at large and that made a boom in the world, and now you say that 18 millions created a boom in the world, and American securities and everything else in the world rose?—I think my figures are all right as far as I am able to make out at present.

5888 (*Lord Faber*) I think the difference between you is that one is talking of the face value of the coin in circulation and the other is talking of the bullion?—Yes.

5889 (*Sir Shapurji Broacha*) It did not create a boom in the world, did it?—That is a matter of opinion. I think it contributed to the rise in prices which has been in progress ever since.

5890 Has everything gone up in the last six years? Not cotton which was 7d in 1904, and came down to 3½d in 1905-6. It was a matter of production and demand?—Individual commodities may have sunk in price and yet the general price level may have risen.

5891 You said in reply to Mr. Keynes that the exchange bank managers' opinion is not to be taken into consideration, because they are interested and look at exchange simply from the point of view of profit?—I did not make exactly that statement.

5892 Is that not your opinion?—No, certainly not. My opinion is that the exchange bank manager to whom you sell Council drafts finds them a very great convenience in the conduct of his business, so it is hardly to be expected that he would criticize that arrangement.

5893 I may tell you that they make the same profit in their business on the Secretary of State's Council bills when he sells bills at ½ as when he sells at ¼?—I do not know about that. You may have an inside knowledge of the workings of these exchange banks which I do not possess.

5894 Then opinion is not to be impugned, and it is an honest opinion, because it makes no difference to their profit whether the sales are at ¼ or ½?—I think from practical experience that it makes a very great difference. Any bank manager, if he knows that he can at any day of the week put himself in funds by the simple process of buying rupees from the Secretary of State, knows that is a great convenience to him.

5895 (*Sir Robert Chalmers*) But the price does not make his profit?—No, it is not the price, but the convenience of being able to get money at a moment's notice.

5896 (*Sir Shapurji Broacha*) What they generally get is the difference between the price at which they buy from the Secretary of State and the price they buy bills at for export, and the London discount rate, so it does not matter whether the exchange is ¼ or ½?—In that case, not a bit.

5897 Their profit being only the difference between the buying and selling rates?—Exactly.

5898 So it would be no advantage to them, in giving their evidence, to mislead the Commission?—Not a bit.

5899 I thought you were rather, may I say, unjust in impugning their creditableness in what they said to the Commission?—I have no knowledge of what the banks have said to the Commission.

5900 You are a merchant, and you know the position of these things yourself?—I know that a convenience of this kind is a convenience, and I should hardly expect those who benefit from the convenience to criticize it very severely.

5901 It is the same with exporters and importers. You do not mind, when you buy wheat, what the exchange is, so long as you can make your 1 per cent. or 2 per cent profit?—Not a bit.

5902 It may move alternately one way and the other, but to the man who does a commission business like yourself, or to a bank, it makes no difference what the exchange rate is?—Not from day to day.

5903 You say you have to make your calculations for a month or for a week ahead as to the rate you do your business at, but in which country have they not to make that calculation? Do you not see in the paper's one day that the Paris exchange is one point against us, and the next day it is two points in our favour? That is a thing which a prudent merchant will take into account, and the Secretary of State's differences are not more. I think you said that Government were not able to sell their bills between 1893 and 1898 at 1s 4d. I do not think I made any assertion of that kind, but I think it is approximately correct.

5904 You gave as one of the reasons that the market was flooded with rupees?—Yes, at the beginning of the period.

5905 Supposing you had in the currency 50 crores of rupees, and the market was flooded at the time, yet if your export was 50 crores and your import 20 crores, how would it affect the rupee at all—the balance of trade must be paid?—I do not know exactly what the question is.

5906 You thought that the rate of exchange did not lift itself up because Government flooded the market with rupees?—That is my opinion.

5907 But I say that if the export was 50 crores and the import, say, 10 crores, or if the export is 60 crores and the import 30 crores, how would the rupee interfere with the exchange coming up? Foreign nations must pay, must they not?—Yes.

5908 Yet with all that, Government were not able to lift the exchange to 1s 4d?—Because the circumstances could not be as your hypothesis suggests.

5909 There may occur a year when the Secretary of State is not able to maintain the exchange at 1s 4d, on your policy what would you do?—Ship sovereigns from India.

5910 On which account?—Sovereigns would be shipped from the Treasury balances in India to the Secretary of State in London on his account for the payment of home charges.

5911 From the Government of India?—From the Government Treasury balances.

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5912 Do you remember the last crisis?—I remember the crisis of 1907-8

5913 There were about 4½ millions of sovereigns issued then, and only a quarter of a million came to the help of exchange, so that instead of the people giving out sovereigns, they took them away?—Yes, owing to the scare created by the Government's mismanagement

5914 Do you know that the Government, as a matter of policy, pushed the sovereign between 1900 and 1907 until sovereigns went to a discount?—The sovereigns did not come out between 1900 and 1907

5915 At the time of the crisis, notwithstanding all the accumulation of sovereigns in the hands of the people, not a single sovereign came out, but, on the contrary they applied Gresham's law, and the cheaper metal was driven out for the dearer?—The Government themselves depressed exchange to below 1s 3½d., and thereby made the sovereign so valuable that the people commenced to hoard it. But that was entirely owing to the Government's own action in failing to release the gold when it was required

5916 It did not help exchange then?—On the contrary, Government very nearly broke the exchange down altogether,

5917 Do you think when exchange is falling or when exchange is wanting in confidence, any gold will come out for rupees?—Certainly

5918 Do you know the law that the depreciated metal will be thrown against the appreciated metal?—I am very familiar with it

5919 You say that there is a redundancy of token coins?—To which year do you refer?

5920 Take any year you like?—I do not think there is a redundancy of the rupee currency at this moment

5921 Then why do you prevent Government from buying silver?—I am not preventing Government from buying silver

5922 Do you know what is the amount per head of population in the Currency Department now in rupees?—I should think it would be very small

5923 Do you think it is as small as in the Bank of France? What is the number of 5 franc pieces per head of population there?—I have not the remotest idea

5924 Do you know what is in circulation in France per head—it is 25 rupees. Taking Mr Keynes's calculation of 164 or 165 crores in circulation, that would come to something like 5½ rupees per head in India. You know, of course, that business in India is a cash business?—Yes, very often

5925 They have not the instruments they have in Europe, such as bills, to take the place of cash?—Not so many of them, but there are some

5926 Therefore they require more money for exchange?—They do require more coins

5927 They should have more coins per head than any civilized country, because civilized countries have other instruments?—That does not in the least follow

5928 It must follow?—Not in the least. I think that depends on the amount of trade that they do

5929 It does not matter at all what trade they do. India has a very large trade more than any other part of the British Empire, and I say there is no large rupee circulation at all?—I have no complaint to make of the rupee circulation at the moment

5930 Do you not think that if France has 25 rupees in circulation India should have 10?—I do not think any comparison can be made between the economic condition of France and the economic condition of India

5931 Do you know that any other gold is dearer than sovereigns to bring out to India?—I think it all depends on circumstances

5932 Give me the circumstances under which it can be cheaper?—Ordinarily, it is cheaper to import sovereigns than gold in any other form, but it depends on the betterness of the gold

5933 I say to bring in gold in any other form, no matter what the betterness may be, is dearer than to bring in sovereigns?—I can hardly agree with that conclusion

5934 (Sir Robert Chalmers) Would it be cheaper to take 10 ounce bars from Australia?

5935 (Sir Shapurji Broacha) Show me how you can bring gold cheaper than in the form of sovereigns?—If depends on the betterness of the gold. Ordinarily it is not cheaper to bring uncoined gold, it is ordinarily cheaper to bring sovereigns

5936 (Lord Faber) Do not forget that the price of gold in the London market is never below 77s 9d. That is the standard at which the Bank of England has got to take it. Therefore, Sir Shapurji is right there, because you cannot get less than a certain price for sovereigns?—I understood Sir Shapurji's question to be whether it was possible to import gold into India in any cheaper form than in the form of sovereigns and I say that it depends upon the quality of the gold bar that is imported. It would not, of course, pay to import polished gold bars. If the rough gold bar contains a larger percentage of alloy than a sovereign, then it might be cheaper to import such gold bars but if the gold bars contain metal of the same fineness as the sovereign, then it is usually cheaper to import sovereigns than to import the gold in any other form

5937 (Sir Shapurji Broacha) Let me say that you are absolutely wrong, commercially?—I do not think so

5938 (Lord Faber) The price of bar gold varies in the London market, but the price of sovereigns never varies?—I take that from you

5939 (Sir Shapurji Broacha) You say in para graph 5 (a) of Part II of Appendix XXI (page 555) that no Council drafts should be sold under 1s 4½d., but now you have modified that and you are ready to give a grace to the Secretary of State to sell up to about 1s 4¼d.?—That passage means that he ought not to have sold at less than 1s 4½d. in 1898-9. That is what that paragraph refers to. You will see it has reference to the previous paragraph stating the policy which was followed in 1898

5940 It does not refer to subsequent times, you say?—No

5941 Can he sell now then, at any rate he likes?—Yes, but I think 1s 4½d. is a suitable rate

5942 Is he to be bound to your dictum of three years ago when you said it should be 1s 4d.?—The 1s 4½d. referred to the circumstances in those days

5943 You know you wrote letters to the papers including the "Economist," stating that the Secretary of State should not sell over 1s 4d. and must sell to all comers? That is what you advised the Secretary of State to do? Supposing he had done that then, would he be pilloried for not doing so now?—My present recommendation is that the rate should be 1s 4¼d.

5944 You have changed your opinion, then, in the last three years?—Yes, that is different to what I suggested five or six years ago

5945 No, three years ago?—I am not quite sure about that

5946 In July 1910, you sent a letter to the "Economist," when the Indian papers and the Indian chambers would pay no heed to your suggestion?—It is quite possible

5947 So you have changed your opinion now?—The rate that I now recommend is 1s 4¼d.

5948 We cannot both do what you recommend at one time, and what you recommend at another time?—Circumstances change

5949 So I say, and yet you ask us to follow the report of the Fowler Committee in its entirety?—Yes

5950 Suppose they are able to bring gold from Australia or from Egypt where they can get it to day at 1s 4½d. I suppose you have read in the papers that the Government has been receiving gold from Egypt?—Sometimes

5951 Is now?—I do not know what is happening at this moment. Do you say that gold is coming from Egypt to London?

5952 Yes, that is the principal country where gold is coming from. It means that gold could be sent to India at 1s 4¼d.?—Quite possibly

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5953 Suppose gold is coming from Australia, Egypt, and other places, on the basis of 1s 4½d, and rupees are wanted, what should the Secretary of State do?—If the Secretary of State in those circumstances is short of funds, it would be necessary for him to reduce the rate, or to ship sovereigns home from India

5954 And lose ½th?—He would have to adjust matters

5955 He would have to do that in order to follow out your policy of making a profit?—In order to follow out my policy of getting the best possible terms for India

5956 You have laid down the dictum that the Secretary of State should not have more money than three millions, and that he should not sell under 1s 4½d, the Secretary of State would require about eight millions between April and November, would he not?—Quite possibly

5957 What is he to do for that extra five millions—he will not have any more money left to disburse?—I think I have already suggested that where the Secretary of State is unable to sell his drafts it may conceivably be necessary to ship home gold from India, or if his exchange be fixed at a rate which precludes him from selling drafts, it might be necessary to consider the rate

5958 The Secretary of State is not able to sell in the meantime between April and October at the price you fix for him?—Then let him ship home sovereigns from India

5959 If there are any?—Certainly

5960 But if there are not any?—If there are not any sovereigns in India, exchange will collapse

5961 Then your remedy is that the stability of exchange will collapse in circumstances like that?—No, I have not suggested any collapse

5962 Do you know that for such times Russia leaves 60 millions in Europe in charge practically of France and England?—You gave me that information this morning

5963 Having regard to possible contingencies should not the Secretary of State have a year's drawings in advance?—I do not think it is in the least necessary

5964 Yours is a hand-to-mouth policy. Where has the Fowler Committee fixed the exchange at 1s 4½d, is there any paragraph in which it has fixed it?—I do not think so

5965 Have you any support for these opinions of yours in India?—Yes

5966 Where?—In the Bombay Chamber of Commerce

5967 The Bombay Chamber of Commerce are not supporting you, are they?—In several respects

5968 Not in any one of these respects that I have been asking you about, nor the Calcutta Chamber of Commerce?—I do not know exactly to what particular point you are referring, but in several respects the Bombay Chamber of Commerce take the same view as the Karachi Chamber of Commerce and the Upper India Chamber of Commerce, in fact, all the Indian Chambers of Commerce, except Bengal and Madras, take the same view as the Karachi Chamber of Commerce on several of the questions which this Commission is enquiring into

5969 (Sir Robert Chalmers) Have you got any support outside Karachi for your fixed rate?—I do not think that question has been widely investigated, but some years ago when I personally suggested a fixed rate it met with no support generally

5970 (Sir Shapurji Broacha.) You say in paragraph 4 of Part II of Appendix XXI (page 555) that according to Professor Dunning MacLeod, a gold standard without a gold currency is unworkable?—That was Professor Dunning MacLeod's opinion.

5971 That has not been supported by the Fowler Committee?—The Fowler Committee, that is, the Indian Currency Committee, looked forward to a gold currency as an essential part of the scheme.

5972 I think there is no gold currency in any country at all. You put down the Indians for savages for not having a gold currency, but where is there a

gold currency—in England?—I think there is a gold currency in England.

5973 According to you they have not increased their gold reserve by a million in the last 10 years?—The Bank of England has not increased its reserve very much in the last 10 years

5974 That is not a very good example to follow, is it?—I think it is not a good example for India to follow

5975 Beyond England is there any country where there is a gold currency?—Yes

5976 Where is it?—There is a gold currency in Australia, and in Canada and in South Africa

5977 No, gold is not used in Canada, and South Africa does not want a mint?—I do not know what the authority for that assertion is

5978 Do you know that last December the people of Germany could not get gold under a premium of 1 per cent?—I do not know what happened last December

5979 Suppose there is a gold currency and Government is not able to supply against rupees, what then? If you have a gold currency that means you have to give gold against all rupees tendered, does it not?—No

5980 What is it then?—There is no connection between a gold currency and Government supplying gold for silver. I do not think the Government supplies gold for silver in any part of the world

5981 Allow me to differ from you. A gold currency means that you have to give gold against all rupees tendered?—I do not attach that meaning to it myself

5982 What meaning do you attach to it?—By a gold currency I mean gold used for the purpose of trade as between buyers and sellers

5983 That is not a gold currency, a gold currency means that you have to give sovereigns against all rupees tendered?—I have never heard that view of the question put forward before

5984 You have cheques and other instruments in England, so that no more gold is used here than the people have in their pockets, but if the Bank of England were asked against the tender of notes to give gold, the Bank of England is bound to give gold in accordance with the Act of 1844?—I believe that to be quite correct

5985 That is the meaning of a gold currency?—I have never suggested that a gold currency should mean that the Government of India should be under an obligation to supply gold in exchange for silver

5986 If language is meant to give a meaning to words, then a gold currency means that?—I have never heard such a meaning put to it before

5987 (Sir James Begbie) You think that the sovereign is the best gold coin to use as currency in India?—Yes

5988 Would you also issue a subsidiary gold coin?—I do not think so

5989 You would only issue a 15 rupee coin?—I think so at present. If subsequent experience showed that it was desirable that a smaller coin should be coined, then I should have nothing to say against it, but to start with I think it would be wise to take the coin that is already in circulation and is known

5990 Is it not the case that 10 rupee notes are more favoured in certain districts than in others?—Yes, I believe so

5991 And the same thing may also be said of the 5-rupee notes?—Yes

5992 Do you not think it is possible in those districts where metallic currency is wanted, a 10-rupee coin might encourage the use of gold?—Yes, I think it is quite possible

5993 (Mr Gillan.) It is quite obvious from the questions that were put to you by Sir Shapurji that the term "gold currency" is one that has different meanings to different minds, but you have, I think, defined what you mean. Will you look at Part VIII, paragraph 2, of Appendix XXI (page 568)? There you speak of a piece gold currency system of the British type, that is what is in your mind?—Yes

5994 The first thing I wish to ask you about that is whether you consider that that is really in accordance

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[Continued.]

with the recommendations of the Fowler Committee?—  
I think so

5995 In paragraph 54 of their report they said that they looked forward "to the effective establishment in India of a gold standard and currency"?—Yes, that is so

5996 But they went on in the next paragraph to point out that "Under an effective gold standard rupees would be token coins, subsidiary to the sovereign. But existing conditions in India do not warrant the imposition of a limit on the amount for which they should constitute a legal tender, indeed, for some time to come, no such limitation can be contemplated." Then they conclude in paragraph 59 that things being as they are in India, they must be content with a system such as exists in France and the United States?—That is so

5997 How do you reconcile your present recommendation with those recommendations?—I think those recommendations were very wise when they were made. I understand them to mean that in those days when the question of introducing a gold currency was being considered, the members of the Committee did not think it possible to impose a limit on the amount for which rupees should be legal tender, but I take it that in course of time when there is plenty of gold in the country it will be possible to impose a limit on the amount of token coinage that is legal tender, and that is the direction in which I imagine India is progressing. The time will come when the gold is circulating so freely that it will be possible and desirable to impose a limit on the amount of rupees that are legal tender.

5998 Then this British type of system that you speak of is not a thing that is immediately obtainable, but it is something to look forward to in the future?—In the near future

5999 You would not, as a matter of fact, have that type of currency system until you are able to make the rupee a subsidiary coin?—I would not suggest that a limit should be imposed on the amount of rupees that are legal tender until such time as there is a more general currency of gold than at present.

6000 But you recognise that the relegation of the rupee to a subsidiary qualification is a necessary condition before this particular type of currency system which you have in your mind can be established?—Yes

6001 I am not clear that I quite understand the general grounds on which you favour a gold currency. You do not object to notes, do you?—No, provided they are based on gold.

6002 Why should it be more necessary to convert silver notes, so to speak, into gold rather than paper notes? In the case of your silver currency you have a currency which carries, at any rate, a substantial portion of its value, and you have got to provide only against the margin of difference, whereas in the case of notes you have to provide a reserve covering the whole value?—That is so.

6003 Then why should you lay particular stress on converting your metallic currency into gold?—Because I think that in the eyes of the world a gold currency commands more respect and establishes greater confidence than a silver currency.

6004 What would your proposals actually involve? I think you have already said, in reply to Sir Shapurji, that they do not involve the undertaking by Government of any obligation to give gold for silver under all conditions?—No.

6005 As regards the practical steps to be taken, Government cannot refuse, as a matter of fact, to give rupees when a demand for rupees is made?—Not at present.

6006 It cannot refuse to coin rupees in order to meet those demands?—Not at present.

6007 I understood from an answer you gave Mr Keynes that in making payments it can show a preference, as it were, for gold, but only when the payee is, so to speak, indifferent?—I think it might go a little bit further. I think Government might use a little gentle persuasion to facilitate the further use of gold. I would not go so far as to suggest that Government should force gold upon reluctant payees,

but where a payee is more or less indifferent, Government can persuade the payee to accept payment in gold, or even where the payee demands payment in silver it may be suggested to him that he can take a portion in gold and a portion in silver. I would not carry the compulsion to the extent of declining to give the payee silver.

6008 (Lord Faber) Would you do what they do in English country banks who have a currency of their own? When a customer comes to the counter and presents a cheque for 10l, the cashier if the customer says nothing, gives him two notes, and then it is for the customer to say, 'I would rather not have the notes, I will have something else,' and he gets it?—Exactly, in the same way I should give the gold, and if the public said they would rather have rupees, very well, let them have it.

6009 (Mr Gillan) But the Government should tender gold?—Yes.

6010 I take it your general position is that you look forward at some future time to the establishment of the particular kind of currency you favour, but at the moment the only recommendation you can make to Government, apart from the establishment of a gold mint, would be that they should use persuasion of the kind that you have mentioned and tender gold in making any payment they have to make?—Yes.

6011 That is the only practical point at the present moment?—Yes—that Government should encourage the use of gold as currency—not force it, but encourage it.

6012 In connection with the questions put to you about giving rupees and coining rupees, there is one question I was going to ask with regard to paragraph 4 in Part V of Appendix XXI (page 362). Incidentally there you say, "The silver coinage ought to be replenished regularly and continuously in small sums (so "as not to inflate unduly the local currency)" how is that to be managed?—If Government were to coin regularly a fixed amount, say 5,000l a week, and they found that the silver proportion of the paper currency reserve was steadily increasing every week, I should then understand that Government are providing too much token currency, and I should cease coining token currency under those circumstances. What I would suggest is that the Government should buy silver regularly every week, and continuously coin token currency to replenish the coinage, but if after, say, a year the amount coined showed that the amount of silver in the paper currency reserve was increasing unduly, I should stop that policy. I should consider in that case that the currency was being unduly inflated.

6013 Would there be any difference in the amount of rupees that actually went out into circulation?—Any difference under what circumstances?

6014 Under the practice which is at present followed by the Government of India of coining occasionally, and under the practice you recommend of coining continuously?—No, not very much difference. The only difference would be that in one case the supply of token coinage would be regular and methodical, and in the other case it is irregular and spasmodic.

6015 Do you mean in supplying the currency reserve?—In supplying token currency—in creating token currency.

6016 (Sir James Begbie) The demand for silver currency in India might be irregular and spasmodic too?—Yes.

6017 (Sir Robert Chalmers) Would not the demand be your chief guide?—If the Government do as they have at present been doing waiting, perhaps, for years until they at last decide that the time has come to coin more silver, I think that procedure is undesirable, because it enables silver speculators to force up the silver market. I think it is desirable to coin a small quantity regularly, and to keep the currency supplied.

6018 (Sir James Begbie) When would you resume the purchases of silver under your scheme?—Straggle away.

6019 Under what conditions?—A small regular amount every week.

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[Continued.]

6020 What would be the time to begin these purchases?—At any time—to-morrow

6021 Would it happen because the silver reserve was falling?—No I should suggest that the coinage goes on regularly week by week in small quantities, attention being paid at the same time to the amount of silver in the Paper Currency Reserve

6022 (*Chairman*.) Suppose the Indian Government had been pursuing that policy when the crisis of 1907-8 came upon them, at that time the public, instead of presenting a demand for more rupees, returned rupees?—That was so

6023 Would you have stopped at that moment?—Instantly, in fact, I should have stopped before that moment, I should have stopped when I saw that the proportion of silver in the Paper Currency Reserve was mounting up

6024 You would have stopped as soon as they ceased to take rupees out, without waiting for them to bring rupees back?—Yes

6025 And you would not have begun again until they began to take rupees out?—Yes.

6026 If in the meantime an unusual number of rupees had accumulated, you would postpone your recommencement until that unusual accumulation had been worked off?—Yes, if it were large

6027 Would it have made a very great difference if they had pursued that policy?—It depends on the amount that was coined week by week

6028 It took them a long time to work off the accumulations which resulted from the crisis of 1907-8, did it not?—Yes, many years

6029 You do not suggest that in the interval between that and the time when they came again, there was any shortage of rupees, do you?—No, I do not think so

6030 Possibly then the Indian Government might say that in effect they had carried out your policy, that when the demand began again it was a very unusually large demand, and that therefore they had to buy at once, and immediately, very large sums?—Such a point of view, of course, I can understand, although I do not concur in it

6031. You think they might well have begun by small amounts?—Yes, might I give Mr Gillan the information he asked for yesterday, which I was unable then to produce? Mr Gillan asked that I should give him the periods when the cash balances of the Government of India were as low as 7 millions I find these are the dates In 1905, in the months of November and December, in 1906, in the months of November and December, in 1907, in the month of December, in 1908, in the months of November and December, and in 1909, in the months of October, November, and December On all those occasions the cash balances of the Government of India were in the neighbourhood of 7 millions to 8 millions

(*Mr Gillan*) I am sorry, Mr Webb has had unnecessary trouble, because he is looking at the balance at a different time of the year That is the time of the minimum balances in every year

6032 (*Chairman*) You suggested 7 millions as a maximum, I think?—Yes, as a working balance

6033 Which ought not to be exceeded?—If it can be avoided

6034 If the Government of India made an endeavour not to exceed that figure, or only to exceed that figure by a very small sum at one time of the year, would it not follow that it would have a very much less sum at another time of the year?—I can quite conceive it

6035 In other words are you not measuring the maximum demand on the balances of the minimum?—I do not think it is a question of the demand on the balances, it is a question of the amount of cash which Government shall keep in its till. In those months it keeps 7 millions or 8 millions in its till, and if in the other months there is an excess over that amount, it might very well be given back to the public through the agency of the banks, so that it should not be kept locked up in the Government Treasury

6036 Whenever it exceeded that sum?—Yes, it might at once, because, I argue, from the existence of these sums, that it would be possible for Government to go on at other months in the year with the same amount in their Treasury

The witness withdrew

At the India Office, Whitehall, S.W.

FOURTEENTH DAY.

Thursday, July 17, 1913.

PRESENT

THE RIGHT HON AUSTEN CHAMBERLAIN, M.P. (*Chairman*)

SIR ROBERT CHALMERS, K.C.B.  
SIR ERNEST CARLE  
SIR SHAPURJI BURJORJI BROOCHA  
SIR JAMES BEEBIE

MR ROBERT WOODBURN GILLAN, C.S.I.  
MR HENRY NEVILLE GLADSTONE  
MR JOHN MAYNARD KEYNES  
MR BASIL P. BLACKETT (*Secretary*)

The Hon MONTAGU DE P WEBB recalled and further examined.

6037 (*Chairman*.) We took you through a good deal of your memorandum last week I want now to turn in the first place to the question of the Gold Standard Reserve. May I take it that you approve of the establishment of a gold reserve?—Yes.

6038. I think you say you would prefer to call it a gold reserve rather than a Gold Standard Reserve?—Yes.

6039 What is your idea of the total which should be reached by that reserve? If you have not fixed any figure in your mind, say so?—Yes, I have fixed a

figure. In past conditions I have regarded 20 to 25 millions as being adequate, but with the establishment of a gold currency I do not think any gold reserve is necessary at all. As we approximate to the condition where gold is in circulation and in common use as currency, so do we come to a stage when no gold reserve or Gold Standard Reserve will be necessary at all, but until that stage is reached I think it ought to be in the neighbourhood of 20 to 25 millions. That is quite sufficient, I think; in fact, I think it is more than sufficient as things are at present.

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[Continued

6040 You gave your opinion of the establishment of a gold currency, and the effect of it, last week, and I do not propose to raise that again to-day. I am now dealing with the condition of things which prevails as long as there is no such gold currency as you desire to see established?—Then about 25 millions would be my answer.

6041 Of that amount how much do you desire to see kept in actual gold?—I should like to see the whole of it kept in gold.

6042 I think you speak in your memorandum of keeping a portion of the securities in London?—That is as a concession to the situation in London.

6043 But you would prefer that the whole should be in gold?—Yes.

6044 Whether in London or in India?—Preferably in India.

6045 Do you not think that there would be some excess of caution in locking up so large an amount of money as 25 millions without attempting to earn interest on any portion of it?—I do not think so. I regard it as essential.

6046 Now I come to the question of where the gold should be kept. You desire to have the whole of it kept in India, or as much of it as you can persuade the authorities to keep there?—Yes.

6047 You say in paragraph 5 of Part IV of your memorandum (page 560) that the object of the reserve "is to provide gold in India for export if required"?—I think so, yes.

6048 Why do you so limit it—that the object of the reserve is to provide gold in India for export?—Because that appears to me to be the only and complete object of the reserve.

6049 To where would it be exported?—Probably to London.

6050 Under what circumstances?—In the event of a reversal of the balance of trade or in the event of a crisis in London. That would involve, of course, a reversal of the balance of trade.

6051 Then you do contemplate that when you have to draw upon this gold reserve the place where you would want it ultimately, if not immediately, is London?—Probably, yes.

6052 I understand that you do not think that that is a reason for keeping it in London?—I think it is altogether outside the duty of Government to go so far.

6053 A great number of witnesses have put to us that, as London will be the place where the gold will be required in the circumstances which you have fore shadowed, London is the best place to keep it. That is not your view?—That is not my view, no. My chief reason being that for many years past it has been recognised that the reserves of gold in London are slender in the extreme, if not dangerously slender, and in those circumstances I do not deem it wise to risk the currency situation in India by putting 25 millions of India's reserve in that same centre.

6054 Your real objection, as I understand, to keeping it in London is a fear that if it were in London it would be used for the convenience of London, and not for the security of the Indian exchange?—That is my main objection, yes.

6055 You hold that view even though the gold here be earmarked, as it is called, at the Bank of England?—Yes.

6056 You are of course aware—at least, I presume you would be aware—that that is not the view held by London bankers?—Yes.

6057 They consider that earmarked gold at the Bank of England is wholly outside the reserves on which they work and count for the purposes of London?—That is the ordinary practice in ordinary conditions, but in a state of crisis or panic I could not imagine for one moment that that earmarked gold would not be appropriated for urgent needs of State.

6058 In fact, you are afraid that, under the stress of such a temptation, the Chancellor of the Exchequer would raid the Secretary of State?—I think he would be sure to.

6059 And in order to guard against that, you would keep the gold in India?—I think it would be an additional source of strength to both sides.

6060 That would mean that while you were building up the reserve you would have to be remitting the gold to India, would it not?—Yes.

6061 And when you were using the reserve you would have to be remitting the gold home from India?—Yes.

6062 Paying something for passing it first in the one direction and then in the other?—Yes.

6063 But in spite of that—as some people would say—wasteful expenditure, you desire it for the reason which you have given me?—Yes.

6064 As a security that it shall be available for India?—Yes. May I add that in my belief the gold which has been earmarked in the past has, on more than one occasion, been unearmarked, if I may so use the expression, at the discretion of the Secretary of State. I believe that on more than one occasion gold has been earmarked by the Secretary of State, and then on another occasion the Secretary of State has removed that restriction and used the gold in other ways.

6065 Can you give me any instance which you have in mind which would bring before us more exactly the circumstances in which it was done?

(*Sir Robert Chalmers*) With specific reference to metallic gold?—I cannot give the dates without making reference, but I remember distinctly that gold has been earmarked for the Gold Standard Reserve, and I think for the Paper Currency Reserve as well and it has been released from that restriction at the discretion and request of the Secretary of State but without any reference, that I am aware of, to India.

6066 (*Mr. Keynes*) Are you referring to the case of 1907-8, when, to meet his own needs, the Secretary of State unearmarked a certain amount of gold?—That is one of the occasions.

6067 (*Chairman*) Was not that a way of making the gold reserve available for the very purpose for which it exists?—In 1907-8, yes.

6068 There was no objection to doing that?—There was no objection, no. I am only drawing attention to the facility with which this gold is earmarked and the restriction taken away again as required by the Secretary of State. It is my belief that in a grave national emergency the Secretary of State would be persuaded to take similar action again. That is what I meant by the Secretary of State being raided.

6069 (*Sir Robert Chalmers*) By the Secretary of State and for India's needs?—In the judgment of the Secretary of State.

6070 (*Chairman*) I think you do not criticise his judgment in the past?—I think the judgment used has been very defective in recent years, and unreliable.

6071 But do you criticise the exercise of his judgment in this particular respect?—No.

6072 You have alluded to those occasions where he unearmarked gold to show the facility with which it could be done?—Yes.

6073 But I do not understand you to say that it was improperly done or done with an improper reason?—No.

6074 Now we pass to the Paper Currency Reserve, from the opening words of Part V of your memorandum (page 561), I gather that you approve of the existing system of paper currency managed by the State?—Yes.

6075 And that you would not advocate its transfer to a central bank?—No.

6076 You object to the holding in London of gold belonging to the Paper Currency Reserve?—Yes.

6077 On what ground—on the ground that the Paper Currency Reserve is for the encashment of notes?—Yes.

6078 And that the notes will be presented in India?—Yes, and that, therefore, the metallic reserve cannot be required under any conceivable circumstances in London.

6079 The reserve held in London, I think, is held in gold?—I believe so, yes.

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[Continued

6080 We have had it in evidence that the great advantage of holding that gold in London is that it provides a means of making the paper currency elastic?—Some of the Paper Currency Reserve, if I may be permitted to correct myself, is held in London in securities, or has been held in London in securities

6081 I was talking of the bullion portion We have had it in evidence that the great advantage of holding gold in London is that it provides a means of making the paper currency elastic Do you follow that?—No, not at all I am familiar with the official argument, but I cannot accept it

6082 The argument being that that is because the circulating medium can be expanded quickly against that deposit of gold in London?—Yes

6083 You do not accept that argument?—No

6084 Do you think it untrue in fact, or is your criticism that it does not support the structure which is raised upon it?—I think that the manipulation of the paper currency has been effective in the respects to which you refer, but I regard it as a very undesirable manipulation.

6085 Apart from that, the paper currency system at present is very inelastic, is it not?—I am not quite sure that I understand the question

6086 There is little power of expansion to meet a great demand in trade pressure, I mean a temporary demand I will put it in another way—the fiduciary portion of the issue is a fixed sum?—Yes

6087 Beyond that notes can only be issued against the deposit of coin or bullion?—Yes, in that sense it is inelastic

6088 Do you think that advantage would be derived by India if more elasticity could be introduced into that system?—Yes

6089 It has been suggested to us by some witnesses that the fiduciary portion of the issue, instead of being a fixed amount, might be some proportion of the whole?—Yes

6090 What do you say to that?—I think that would be a wise principle to adopt

6091 Have you any figure in your mind as to the proportion to which you think it would be safe to go?—I think that a step further forward may be made than is at present being taken I do not know exactly what proportion, but I think that we might go further forward than we have done in the past.

6092 It has been also suggested to us that for the sake of meeting the trade needs in the busy times the whole of the fiduciary portion should not be permanently invested, but that a part of it, probably a small part of it, should be left to be lent out on the market in busy times Would that commend itself to you?—Yes, I think so

6093 If that were done would you still want the Treasury balances lent out in the manner which you explained to us last week?—Yes, I think so, I think if Treasury balances are accumulated in excess of the requirements of the State the right course for the State to take is to make that money which has been collected in excess of requirements available to the public through the banks

6094 In the course of your criticisms of the present management of the Paper Currency Reserve you quote the reply of the Under Secretary in the House of Commons to Mr Gwynne, it is subsection (c) of section 3 of Part V (page 562) "Investments in sterling securities in London are better for India than investment in Government of India rupee paper because such securities are not necessarily influenced by the causes which might shake public confidence in the Indian paper currency" I think you quote that observation for the purpose of condemning it, but is it not true?—It is true in a sense, but if there were no portion of the paper currency lying in London at all it could not be invested in English securities, and there, in my opinion the argument is unsound

6095 Because there ought to be none here?—Because there ought not to be any there My other reason for quoting that is merely to show that it is in conflict with other explanations and arguments which have been used

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6096 In paragraph 7 of the same part of your memorandum (page 563), at the end, you say "Indeed, did the crisis happen to be a western crisis rather than an Indian crisis, the gold"—you are speaking of the Paper Currency Reserve gold—"would be far more valuable to India (and possibly to Great Britain) were it held in India rather than in the United Kingdom" Will you explain that to me? I do not follow your reasoning?—If the crisis happened to be a western crisis there would probably be a shortage of gold in London, and in such circumstances the shipments of gold from India to London would tend to relieve that crisis, but if India's gold was held in London the demands of India for that gold would tend to accentuate the crisis

6097 Why would India demand the gold? If the ultimate need of the gold was in India, then if it were issued in India it would not come to London?—No, if the ultimate end was India, but in a case of crisis in London there would be a demand for money in London, and that demand would show itself in a request to the public of India to remit their money to London to assist in overcoming the crisis, but if the money were in London, then the recovery would be through the agency of the Secretary of State, that is to say, the public would go to the Government of India and take over the drafts from the Secretary of State which in a crisis he might not be able to cash, but if the reserve were held in India in gold there would be no difficulty in anybody taking their metal from the treasuries and shipping it to London

6098 But is not there exactly the same amount of gold *ex hypothesi* in either case?—Yes

6099 In one case it is in the control of the Government of India?—Yes

6100 And in the other case it is in the control of the Secretary of State in London?—Yes

6101 In either case it is wanted by India to settle an adverse balance of trade with London?—Yes

6102 Except in point of time, what difference is there between issuing from the treasuries in India and issuing the gold from the Bank of England in London?—The difference is this, that if the paper currency reserve is held in London, probably the whole of it would not be in gold, but largely in securities The portion that was in gold would be liable to be appropriated for other purposes in a severe crisis, whereas if the gold were held in India the gold would be obtainable for the public and would not be affected by the crisis taking place in London, so that the public could ship their gold home, and thereby re-establish confidence in London.

6103 I think it really comes to this, that you have confidence in the management of the Government of India if the gold is under their control, but you have not the same confidence in the management of the Secretary of State and the Council in London?—That is what it comes to

6104 Generally speaking, as regards these two reserves I think a considerable part of your criticism is directed to the interchange which has been made between them You object, for instance, to holding any silver in the gold reserve?—Yes

6105 You object to holding any gold in the silver reserve?—I do not object to that, no

6106 I beg your pardon, I misunderstood you, then?—I object to holding silver in the gold reserve, but I do not object to sovereigns being held in the Paper Currency Reserve I merely drew attention to the fact that a reserve which is accumulated for the purpose of paying out rupees is held in gold, and a reserve which is accumulated with the special object of paying out gold is held in silver, and I reflect on this management and I call it bad management.

6107 If the two reserves were amalgamated, and one reserve made to serve both purposes would that meet your criticism on that point?—I do not know how the two reserves could be amalgamated without an entire abandonment of the present machinery I have already pointed out that if there is plenty of gold in circulation, and plenty of gold in the Paper Currency Reserve, there would be no necessity for a second reserve (i.e., Gold Standard Reserve) at all.

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[Continued

6108 I turn now to Part VI (page 563) I propose to deal very briefly with the remaining portion of your memorandum, which is in fact largely a summary of the preceding parts, and we have therefore dealt with it already?—Yes

6109 In Part VI you quote the opinion of the Indian Currency Committee, in recommending open gold mints and a gold currency and standard for India, that "with the growth of confidence in a stable exchange, capital will be encouraged to flow freely into India for the further development of her great natural resources"\* Do I understand you to imply that that hope has not been realised?—It has not been fully realised I can certainly say from my own personal knowledge that many people at present are afraid to invest in India because they think there is some uncertainty about the stability of the rupee

6110 That is what I was going to put to you, that it was in fact upon the growth of confidence in a stable exchange that the Currency Committee relied to produce that result?—Yes

6111 Only in so far as the stable exchange is obtained or supported by the opening of mints to gold and by a gold currency would they affect the proposition at all?—Yes

6112 As regards the financial organisation of the India Office, am I right in understanding that you suggest a committee of three in place of the present committee?—Yes

6113 Your principal objection, I understand, to the present committee is, perhaps I may say, the results which have followed from its management?—That is certainly very largely my objection, the results show that the committee is not wisely constituted, I think

6114 You dislike the fruit, and you judge the tree by the fruit?—Yes

6115 Your main objection, as I understand, to its composition is that London is too much represented and India too little represented?—Yes

6116 Your proposition is that there should be one London banker, one Indian banker, and one Anglo-Indian administrator?—Yes

6117 You speak of an Anglo-Indian banker It must be somebody who has retired, I suppose, from Anglo-Indian banking?—I presume so

6118 He must be somebody, at any rate, who is resident in London?—Yes

6119 He might be a London representative of one of the Indian banks?—Yes

6120 You have not, I suppose, and you could not have, any detailed knowledge of the working of the present organisation, you can only judge it, and do only judge it, by its results?—That is all

6121 There is only one further question I want to ask you I do not think that we have had your opinion as to whether it is desirable that some State or Central bank should be established in India?—So far as the suggestions which have appeared in the Press may convey a correct idea of the proposed State bank, I do not see that the advantages outweigh the disadvantages

6122 (Sir Robert Chalmers) As regards the Gold Standard Reserve, do I gather aright that you take some exception to it because it is entirely at the discretion of the Government, without any statutory sanction? Would you like to see a statutory sanction for the utilisation and management and control of the Gold Standard Reserve?—Yes

6123 You would be guided in that to some extent by the fact that in the case of the Paper Currency Reserve there is always, of course, statutory sanction?—Yes

6124 And statutory determination of the methods by which it should be conducted?—Yes

6125 I do not know whether you would be in a position to express any opinion on a proposition which I have heard discussed, that it might be possible to blend those two reserves?—Yes, it might be possible

6126 You are not in a position to express any thought out view on that matter?—I have never before heard it suggested that they should be blended

6127 Coming to the gold reserve in itself, suppose there were no metallic gold in the reserve in your millennial scheme, but a gold currency ample enough to meet your requirements, what do you think would happen if the balance of trade became adverse?—It would be necessary to ship gold from India to Europe

6128 The gold would be, in the main, in the hands of private individuals?—Yes

6129 You have great experience of human nature, particularly native human nature, in India Do you think you would get gold to come out? Do you not think the tendency might be to hoard it instead of helping bullion export?—I do not think there would be the slightest difficulty if gold were circulating freely

6130 Is that your deliberate opinion?—Yes

6131 Have you anything to support that in history, so far as there exists history on these matters in India?—There is no history in India that will help us in the matter, because we have not had a gold currency of large magnitude before

6132 Would it be a fair statement of history, in your opinion, to say that metal or coin has come out from hoards only under stress of famine in past times?—That has happened in the past, certainly I understand the question to be whether that is the only occasion upon which metal has come out from hoards

6133 So far as there is any history, is that your opinion?—Yes, that is approximately correct, I should say

6134 Do you feel really sufficiently safe, in your opinion, to trust to any currency distributed amongst the population as your ultimate reserve to support exchange? Do you feel safe enough to take this gigantic step of having no metallic gold in the reserve, and trust exclusively to a diffused currency of gold coins? Do you feel certain enough in that to take so big a step?—No, I am trusting to the gold in the Paper Currency Reserve largely There will be 30 millions or 40 millions in the Paper Currency Reserve, and it is from that reserve that the banks would draw the gold for export

6135 I am relieved to find that I had not gathered your opinion rightly How has the gold in question got into the Paper Currency Reserve under the circumstances you have in mind?—It usually finds its way by direct importation of gold by the public

6136 In the crisis that we are contemplating would not there be a tendency to present notes and to require encashment in gold?—Yes

6137 And that gold so drawn by encashment of notes in your judgment would be used for export?—That is the only purpose for which I can conceive it would be withdrawn from the Paper Currency Reserve

6138 That is not quite so much in my mind The point is whether the person who has drawn the gold would, as a matter of fact, export it Do you feel happy on that?—I feel perfectly happy

6139 In spite of the fact that one knows that of the previous 4½ millions withdrawn only about a quarter of a million came to England to support exchange?—That was because Government themselves by their own actions made it more economical for the public to hoard the gold than to give it to the banks to export

6140 That is your view?—Yes

6141 Coming to the Paper Currency Reserve, you are prepared to see that utilised for trade advances on gilt edged securities to Presidency banks?—A small proportion of it, yes

6142 Part of the fiduciary portion of that Paper Currency Reserve you would see utilised in that form?—Yes

6143 And you would regard that as adding elasticity to the issue and making it, perhaps you would feel, rather more scientific?—My object would be to make it a little more elastic for meeting seasonal requirements for currency

6144 As to the amount of that, would you give as much as would be required for trade at the time of seasonal pressure?—I think the first consideration would have to be the security of the paper currency

\* C 4380, paragraph 70 page 21



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6145 But assuming security, assuming that you have got the best floaters, if I may use the term, as the basis of the advance—assuming that you have got all the security needed—you would be prepared within the fiduciary portion of the Paper Currency Reserve to lend out what is required for seasonal pressure to the market? I am only asking your opinion?—I am not prepared to say “as much as is required,” but I should lend out substantial sums with the object of aiding the market

6146 Do you think much would be required?—Yes

6147 Are you in a position to suggest from your experience what might be taken as the amount which in a fairly busy year might be required by trade to supplement the existing resources available?—I am not prepared to say off hand without going into the matter more carefully

6148 Still, India is not a very big market, and a little shortage makes a very great difference, of course?—Yes

6149 Would you be disposed to imagine that it would be a large sum which would be necessary to make the difference between stringency and relative ease?—No, I should think comparatively a small sum, possibly a crore or two crores of rupees

6150 You would be prepared to advance that sort of sum from the Paper Currency Reserve?—Yes, if it could be done without jeopardising the currency

6151 On perfectly adequate security?—Yes

6152 And to the extent to which you would do it from the Paper Currency Reserve you would not need to do it from Treasury balances?—Presumably not. It is immaterial from the point of view of trade, where the money comes from. It is a matter of Government convenience

6153 There would be at any rate that element of *prima facie* propriety, that the Paper Currency Reserve would not want its fiduciary portion back at a given moment in the same way that the Government, which, after all, is a trader, requires its cash brought in for the purpose of making its payments?—Yes, quite so

6154 To that extent there would be an advantage, in your judgment, in the utilisation of the Paper Currency Reserve rather than the Treasury balances?—Yes

6155 (Sir Ernest Cable) I think you said that when the Gold Standard Reserve had reached a sum of 25 millions you would regard that as a safe figure?—Yes, in the present circumstances

6156 Then, when that sum had been reached, I presume you would agree that the profits on the silver coinage might then safely be utilized in the general expenditure of the country on productive public works?—Yes

6157 The whole tendency of your evidence, of course is in favour of a gold currency?—Yes

6158 And so far as that would be successful, those profits would be diminished?—Yes

6159 You would regard that loss of profits with equanimity?—Yes, I think that Government should not look at the profits on the token currency in the light of revenue

6160 But still, there would be a profit after your 25 millions had been reached?—Yes I think it would be necessary, though, to regard that profit with very great caution, so as to avoid any temptation on the part of Government to issue excessive token currency merely with the object of making a profit on it. I think that would have to be guarded against very carefully

6161 Then, that profit being lost, you would suggest, I suppose, that the requirements of the country should be met by raising more loans?—The Government requirements, yes

6162 I think you said the other day that a very large amount could be raised by 3½ per cent. loans on the present terms?—I think some more could be raised. I do not know that I said “very large,” but I think more money could be raised

6163. I think you will admit that India is paying rather less than the rest of the world for its money is it not?—Yes, that is the source of the difficulty. I

think if Government were to pay a trifle more for their loans, just as other Governments have been forced to do, there would be plenty of capital forthcoming

6164 If they revised the terms of the loans and brought them up to date, so to speak, in the matter of terms and conditions, we should not be in constant need of money for developing the country?—No, I think there would be practically unlimited money forthcoming

6165 (Sir Robert Chalmers) But, of course, every thing turns on price?—Yes

6166 If you offered 8 per cent you could get any amount of money?—Yes I think a great deal of the difficulty which the Government of India at present have in raising their funds arises from the fact that they are not paying perhaps quite enough in comparison with what other countries have been forced to pay for new capital issues

6167 Do you make that remark as a stricture on the Government of India?—No

6168 On the contrary, they have been husbanding their credit as much as they can?—Yes

6169 (Sir Ernest Cable) Do you not think they have done the country harm by delaying development owing to the too conservative terms upon which they are trying to raise money?—I do not think I would be prepared to go as far as to say that harm had been done

6170 (Mr. Keynes) In paragraph 6 of Part IV of your memorandum (page 560) you say “No other nation in the world, that I am aware of, holds its gold reserves in securities, silver, and short loans to private borrowers outside its own country.” When you say “gold reserves” you do not mean reserves of gold coin, you mean sterling reserves?—No, I mean reserves of gold coin

6171 Would you maintain that India holds her reserve of gold coin in silver?—She holds a substantial proportion of the Gold Standard Reserve, which was created with the special object of redeeming the gold currency, in silver

6172 I am putting it to you, that if by “gold” you mean gold coin, then, of course, no nation can possibly hold its gold coin in silver?—No

6173 If you mean by “gold” sterling resources?—No, I do not mean sterling resources

6174 Then are not there other countries which follow the same practice as India?—No, I mean gold reserve. I think I stated “gold reserve,” by which I mean a reserve of gold, and I argue that the Gold Standard Reserve was intended, and was originally meant, to be a reserve of gold. That is what it was intended to be—a reserve of gold—and, in so far as Government have departed from the recommendations of the Fowler Committee they are not holding reserves of gold, but they are holding silver, securities and loans, which I think is very bad.

6175 You are aware that there are other nations which hold their sterling reserves in the forms you describe?—Yes

6176 So that the reference to other nations in this connection is epigrammatic rather than argumentative?—I think the statement of fact as I have made it is quite accurate, I believe so

6177 I do not think anyone could deny it as a statement of fact if by “gold reserve” you mean gold coin reserve, and I will leave it at that. Would you maintain that the purposes for which India holds sterling reserves abroad is materially different from the purposes for which other countries hold sterling reserves abroad?—I believe it is materially the same, the reason is materially the same

6178. So that you will agree with me that the practice of India in this matter is the same, whether right or wrong, as certain other important countries?—Yes, it is the same in some respects.

6179 I should like to ask you one or two questions on this matter of holding gold in India or London. In reply to the Chairman this morning you gave it as your main reason for washing the gold to be held in India, as I understood, that if the gold was held in

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[Continued]

London it probably would not be gold?—That is part of the reason.

6180 If it were gold you would not have so much objection?—Not so much, but I should still feel nervous lest the gold were appropriated in a crisis for London's needs rather than India's needs.

6181 There are two points. There is the form in which your sterling resources are to be held, whether securities or gold, and there is the second question. When it has been determined how much gold is to be held, where that gold is to be kept?—Yes.

6182 Putting aside the first point, after it has been settled how much gold is to be held, do you think there is then much advantage in holding the gold in India rather than in London?—Yes, so long as the gold reserves in London stand at their present figure, as a matter of caution I should certainly hold India's gold reserves in India.

6183 And your only reason for that is that you think the Secretary of State might un earmark gold when strictly from India's point of view it was not necessary?—Yes.

6184 I want to put to you in regard to that this question. In difficult times in London is not India quite exceptionally at the mercy of a high London bank rate? Supposing that the London money market was *in extremis*, and wanting gold from all possible sources, and putting up its bank rate, and taking other measures with that same end, could not India be forced to repay sums which she had borrowed at short notice, and so make her gold available to the London money market?—The sums which India borrows repayable at short notice are very small relatively. It is generally the other way about, recently, it has certainly been London that owes India money borrowed and repayable at short notice.

6185 You are aware, for example, that the banks raise very large sums in London at short notice?—Yes.

6186 And operate in India?—Yes.

6187 There are a great number of business houses with connections both in this country and in India, and with the London bank rate up to 7 or 8 per cent they would all wish to get as much money home as they could?—It depends on what the house was, and the nature of the business. It is not because there is such a high bank rate in London that therefore people necessarily remit money from India to London.

6188 But there would be the general tendency for at any rate some persons to wish to hold a larger proportion of their funds in London than usual, and a less proportion in India?—Yes, there would be a tendency.

6189 And, owing to the close relations between India and London, that would be so to a greater extent, perhaps, in the case of India than in the case of any other country?—Possibly.

6190 I suggest, therefore, that in a case of extreme stringency, such as you are considering, it is quite conceivable that it would be necessary for the Secretary of State to un earmark gold in the interests of India. If London really wants India's gold she can get it by perfectly legitimate means?—I think she can get some of the gold, yes.

6191 I will even go so far as to say this, that the very reason why India has to keep a gold reserve is because she is at the mercy of London when London is in difficulties of this kind, or that is one of the reasons?—I could not acquiesce in that view. I think that India is in a very powerful position indeed.

6192 I mean that a country which is a borrower rather than a lender, and can be compelled to pay money, has to keep larger reserves than a country which is a lender rather than a borrower?—Yes, but I do not think India borrows short period loans so largely as to make that a danger to India.

6193 The point I am trying to bring forward is, of course, independent of the balance of trade in commodities?—Yes.

6194 I am thinking not so much of the case where India is in difficulties because of the falling off of her exports, as of the case in which it is to the advantage of most private persons to remit funds back from India to London so far as they possibly can, and I am argu-

ing that the funds which are available to private persons in such circumstances are at any rate as large or larger, as between India and London than as between almost any other pair of countries?—I do not know.

6195 We know that even in the case of South American countries the power of a high bank rate in making people remit back is very strong, and I suggest to you that in the case of India it would really be stronger?—I should not like to say I can quite conceive that, in such an emergency, it might be necessary to raise the bank rate in India to prevent money going back, and I can quite conceive that India would most successfully carry out that operation.

6196 But why should India want to?—Because India has a large trade of her own to carry on which needs financing.

6197 (Sir Robert Chalmers) Where is the ultimate settlement of the financing of India's trade?—Probably in London.

6198 (Mr Keynes) I do not want to press this point any further because I think I have really got your opinion, but I should like your answer to this final question. You do not agree with me, I think, in holding that one of the reasons why India has to keep a large reserve is because of her close connection with London and because of her being borrower rather than lender in the international short loan market?—I do not think that is the principal reason.

6199 And it is a difference of opinion on that point which leads up to the other difference of opinion as to the likelihood of the Secretary of State being even tempted to un earmark gold in a crisis contrary to India's interest?—I have never heard it suggested or put forward as an argument that the Gold Standard Reserve has been created for the particular purposes which you suggest. The only object for which I know that the Gold Standard Reserve was created was to provide for a reversal in the balance of the trade necessitating gold exports from India—monetary exports from India.

6200 But there is not the slightest difference between the need for remittance caused by having to repay loans which are due and that caused by having to pay for new purchases, is there?—No.

6201 Your last point is not in the least relevant to the argument, is it?—It is relevant in this sense, that I have never heard it suggested that it was necessary to create a Gold Standard Reserve for other purposes than the reversal in the balance of trade in commodities, I have never heard it so argued. The ultimate effect, of course, is the same, however the reversal of trade comes about, but the Gold Standard Reserve has been created, so far as my knowledge goes, with the special object of providing gold for meeting a reversal in the trade balance and for no other reason.

6202 You mean simply that this point which I am suggesting, namely, that the Gold Standard Reserve also be used in cases where India is called on to repay, is a new one to you?—It may be so, but I do not regard it as an important point, because I do not think the amount which would have to be repaid in such circumstances as you suggest would be very large.

6203 Your previous answer merely meant that you had not heard people argue on the same lines as I was arguing now. You did not mean anything else?—Yes.

6204 In answer to the Chairman, you agreed with him, I think, that it would be a little unsafe at a crisis to rely wholly on gold in circulation, even if it was in circulation to a large extent?—Yes.

6205 And that you were relying on the gold in the Paper Currency Reserve?—Yes, that was in reply to a question by Sir Robert Chalmers.

6206 The amount of gold in the Paper Currency Reserve depends upon the circulation of notes being increased?—Yes, increased gold depends largely on an increased use of the paper currency.

6207 And upon the circulation of rupees not being diminished?—Yes, and upon the note circulation not being diminished.

6208 So that any measure which sets up a rival to the paper currency and to rupees is likely to have some tendency to diminish the amount of gold held in the Paper Currency Reserve?—Yes, some tendency.

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[Continued

6209 If, therefore, you are relying mainly on gold in the Paper Currency Reserve, you would wish rather for a continuance and extension of the present arrangements rather than for some new ones?—Not necessarily

6210 In so far as you are depending on gold in the Paper Currency Reserve, you would wish for what I have suggested?—No, I do not follow that

6211 You agree with me that if notes are being used more, and if rupees are not being used less then there is the more gold in the Paper Currency Reserve than would otherwise be the case?—Yes

6212 Therefore, if you are relying mainly on gold in the Paper Currency Reserve, you must wish for an increase of notes which is accompanied by no great diminution in the use of rupees?—Yes

6213 And the contrary policy would lead to there being less gold in the Paper Currency Reserve?—Yes

6214 And therefore, in so far as you are relying upon gold in the Paper Currency Reserve, to more weakness rather than to more strength in a crisis?—I do not follow that last question

6215 In so far as you are relying on gold in the Paper Currency Reserve, an alteration of policy would lead to more weakness rather than to more strength in a crisis?—I am afraid I do not follow

6216 (*Chairman*) Would it help if it were put to the witness the other way? He would see better what you are meaning (*To the witness*) Suppose you diminished the number of notes in circulation and the number of rupees in circulation by increasing the amount of gold in circulation, you have *pro tanto* diminished the amount of gold in the Paper Currency Reserve, is not that so?—In the reserve, yes, that is right

6217 But the presence of gold in the Paper Currency Reserve in large quantities is essential to the success of your policy, is it not?—Yes

6218 Therefore anything which diminishes the amount of notes and rupees in circulation jeopardises the success of your policy?—Yes, I follow that line of argument

6219 That is only beginning at the other end?—I understand this line of questioning now is If you had no Paper Currency Reserve your scheme would be perhaps considerably jeopardised That is the direction in which the examination leads Do I follow that correctly? I understand it to be that if you did away with the Paper Currency Reserve you would have no gold in the Paper Currency Reserve, and therefore what would you depend upon for export

6220 That is the extreme case?—That is the extreme, yes

6221 And that in proportion as you diminish the notes and rupee circulation you diminish gold in the Paper Currency Reserve?—Yes, I have followed that correctly, I think

6222 (*Mr Keynes*) There is also the further point which I want to imply, namely, that if rupees are driven out of circulation the only home they would have would be in the Paper Currency Reserve, and that they must displace gold there, there is that point also?—It is so It is a theoretical possibility It has no practical probability about it, I think

6223 In paragraph 1 of Part VI (pp 563-4) you say that there has been delay in the growth of confidence resulting in cheap capital being withheld from India which would otherwise have flowed there?—Yes

6224 What evidence have you of that?—Evidence of my own practical experience as a financier and banker

6225 You could not make it in the least specific?—I could not write down for you individual instances of people whose nervousness had prevented their sending their money out to India, and I should not care to do so if I could

6226 But you have in your own experience met persons who were prevented from investing in India because of their lack of confidence in the stability of the rupee?—Yes

6227 There is no instance that you care to specify about that?—No, I can give no names

6228 I have only one final question to ask We are aware, of course, that you have written a great

deal in the press and elsewhere in regard to the questions which we are investigating?—Yes

6229 May we understand that in the memorandum which you have submitted (*see Appendix XXI, page 550*), and in your evidence of last week and this morning you have brought to our notice all those criticisms and considerations which you think important and deserving our attention?—Yes, I think so in relation to the matters referred to this Commission for consideration but not in connection with any other matters

6230 (*Sir Shapurji Bhoacha*) Your great objection to keeping gold here is that the temptation is too great in time of crisis?—Yes

6231 If the Secretary of State at a certain juncture wishes gold to come out from India to here, can the Government of India refuse the order?—I should think not

6232 Then where is the great safety of keeping it in India? If England requires it she will order it?—My line of argument was this, that it is recognised on all hands that there is not sufficient gold in London at the present moment proportionate with the banking liabilities of the London banks, and consequently it is common knowledge that the London banks are at the present moment putting their heads together to devise means by which they can persuade each other to hold larger gold reserves In those circumstances I think it would be safe for India in the meantime to hold its own gold reserves in India That is my line of argument

6233 Suppose it is called up?—If it is called up by the public it can be remitted

6234 Then there is not such great safety as you think by keeping it in India, it is safer here Do you not think so?—No, I do not think so At the present moment there are over 16 millions invested in London on behalf of India in the securities in the Gold Standard Reserve, and I do not think that six millions of those 16 millions could be realised to-morrow if the cash were urgently wanted in London

6235 You say all fiduciary securities should be invested in rupee securities and not in sterling?—As far as possible

6236 There is a danger of not being able to sell sterling securities, is not that so?—Except at a very heavy loss

6237 Would not that happen in India supposing there were a rebellion? You would have to sell at half the price where you could sell at all Is it not better to put your eggs into two baskets instead of one?—I regard the policy which I am advocating as precisely what you are suggesting, namely, putting my eggs into two baskets instead of one That is my policy If the money is in London, I regard the eggs as being in one basket, but if the money is half in London and half in India, I regard the eggs as being in two baskets

6238 I am talking of fiduciary securities You do not want two millions to be invested in London securities, but you would have 12 crores in Indian securities?—Yes

6239 In talking of the two baskets, I am speaking of those two securities?—No, I do not think it is desirable to invest a reserve against the Indian paper currency outside India, I do not think it necessary

6240 Would it not be safer to have half in English securities and half in Indian securities?—I do not think so, I do not think that that is necessary as a matter of practical business in connection with the Paper Currency Reserve

6241 When there is a raid in time of crisis in India, would it not be better that some surplus should be here which you could sell?—I do not know what the use of a surplus in London would be in such an emergency I do not know how it could be brought immediately to the assistance of the Government of India

6242 You say, of course, that you approve of the present currency arrangement—the notes, you think that it is well managed by the Government?—The paper currency, yes

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[Continued

6243 And people think paper issued by Government safer than paper issued by a bank?—I think they do, undoubtedly

6244 It will take a long time to accustom them to bank paper?—Yes

6245 The fiduciary surplus in the paper currency is about 20 per cent at present, it is 14 crores against 70 crores, which is 20 per cent?—Yes, roughly

6246 In England it is about 33 per cent?—Yes

6247 When the Government are not able to afford any assistance to the trade, would you allow the Currency Department to lend between 20 and 33 per cent of the currency balances, would it be unsafe?—No, I do not think it would be unsafe

6248 (Sir Robert Chalmers) Your opinion would turn to some extent on the amount?—Yes, the amount and the conditions of the moment. It would be very difficult to lay down any hard and fast rule which would be applicable in any month and in any year, no matter what the political or other conditions might be

6249 (Sir Shapurji Broacha) You fix the liquid gold reserve at 25 millions?—In the Gold Standard Reserve, and under present conditions, yes

6250 Would it not be better if it were all put into gold?—If there is a large quantity of gold in the Paper Currency Reserve, and if there is gold freely in circulation, I do not think it would be ever necessary to hold more than 25 millions in the Gold Standard Reserve

6251 Do you know other countries are scrambling for gold and losing interest?—They always hold very large gold reserves. Every other country holds larger gold reserves than we do, in spite of the loss of interest

6252 Why should not India do that?—I think India should hold a larger reserve of gold. That is entirely my line of argument

6253 You said something about the organisation of the India Office. Would you prefer that every Finance Minister retiring should be on the Finance Committee until another Finance Minister retired, because then, of course, they will be fresh anyhow every five years?—There is much to be said for that

6254 For instance, a Finance Minister is retiring now. If he serves for five years or four years until the other retires, we should always get sufficient knowledge from India?—There is something to be said for that

6255 An Anglo-Indian retired bank manager would not be of much use unless he had only retired for two or three years, would he?—Possibly not

6256 Because the man who knows and is in intimate touch with India is a working manager?—Yes. It is possible that an appointment to the Secretary of State's Council might expedite his retirement

6257 Who ships gold in a crisis for the maintenance of exchange? Is it the people?—The banks, probably, and large mercantile firms

6258 According to you, they will have to go to the Currency Department?—Probably

6259 They will not get it from the people?—Partly from the people

6260 Do you think as long as they have rupees and notes enough for exchange they will ever part with their gold?—I think so

6261 Have you any reason to think so?—If gold is circulating freely, I have no reason to suppose that there will be any reluctance on the part of the people to pay gold

6262 You think so?—I think so, if gold is circulating freely

6263 Do you think I would give my gold in a time of crisis?—I do not know

6264 I can tell you one instance. In the acute crisis of the Balkans I am given to understand that a man just wrote a cheque for 100,000l. on the Bank of England and took it out in actual gold?—Yes

6265 Do you think that is less likely in India, where they know nothing but metal?—I do not think myself it would be so. If gold is circulating freely, in the event of a reversal of the balance of trade, I do not think that the great mass of the people, who know nothing about the balance of trade, would create any

difficulty in the way of passing gold from hand to hand any more than silver

6266 Again, if you are able to borrow largely in India for public works, part of that will be sent here again and more gold will be required, even in that case, in England than in India?—That will be adjusted in the balance of trade

6267 But how is the Secretary of State to take the gold out? The Government of India have to remit to England?—Not necessarily gold

6268 The Secretary of State must sell drafts?—Not necessarily in gold. Remittances may come to England in the form of surplus produce

6269 (Sir James Begbie) You remarked with regard to the silver branch of the Gold Standard Reserve that you think it should be transferred to the Paper Currency Reserve?—Yes

6270 When would you do that, would you do that at once?—Yes

6271 These are rupees which have been coined outside the public demand for rupees?—Yes

6272 I understood you to say that you would only issue rupees at a certain rate of exchange?—Yes

6273 You would not apply that principle to this silver branch?—I would apply it with regard to the rate at which the transfer was made, yes, in adjusting the book entry, I should make the transfer at the import specie point

6274 Do you think it is quite legitimate to add rupees to the currency in this way and to take gold in exchange for them?—Yes, I think it is quite legitimate in the present case of the Paper Currency Reserve and the Gold Standard Reserve

6275 It is an addition to the silver currency which is not demanded by the public?—Yes, I do not think that the present four millions of silver in the Gold Standard Reserve has ever been demanded by the public

6276 But you see no objection to putting that silver into the Paper Currency Reserve and taking gold out in exchange?—No, I see no objection in this particular case. I think it is desirable to do that to remove the present absurdity of holding silver in the Gold Standard Reserve

6277 With regard to your proposal about the Gold Standard Reserve, you suggest that seven millions should be held in securities and the balance in gold?—Yes

6278 In the event of the reserve being used, I understand you would draw upon the invested reserve first of all?—That would depend upon the conditions of the moment. If selling the securities in the reserve involved very heavy loss, then I should probably suggest shipping gold from India. If the securities could be sold at a profit I should sell them first, certainly

6279 There is a great advantage in shipping gold, is there not, in place of the present procedure of selling bills against the Gold Standard Reserve in London? If gold is exported from India to support exchange, the first effect is to reduce the Indian currency?—Yes

6280 The effect on the other side, supposing that the gold is shipped to London, is to increase the currency in London?—Yes, that is a very desirable and normal movement, in my opinion

6281 And that effect is lost if you sell bills instead of shipping the gold?—Yes, exactly

6282 With regard to the metal coming out of hoards, I am not quite sure that I understood what you said to day. Do you think that metal only comes out of hoards in famine times—I mean metallic gold?—I find it very difficult to say under what circumstances metal comes out of hoards, because I think there is a great deal of misunderstanding with regard to hoards. I regard a hoard as merely in many instances a merchant's floating cash which he keeps in his house. Under what circumstances he brings that cash out it is very difficult to say. Of course, in times of famine cash is released largely. It used to be silver ornaments before the closing of the mints, but now it would be cash, no doubt

6283 You remember the circumstances of 1894, when exchange fell to such an extent?—Yes.

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[Continued

6284 At that time very large quantities of gold came out of hoards?—Yes, they did, tempted by the low rate of exchange

6285 And the high rate of gold?—And the high rate of the sovereign in India I remember that very large quantities of sovereigns came down from Persia at that time, and they were purchased by myself They were William IV sovereigns in perfect condition

6286 With regard to the loans from the Paper Currency Reserve, judging from past experience, comparatively small amounts would ease the market, you think?—I think so, yes

6287 But if the effect was to ease the market, that is to say, to lower the rate of discount, the demand for those loans might increase?—Yes, it probably would

6288 (Chairman) I want to ask one or two questions I think we have it quite clear that your great objection to keeping the Gold Reserve in London is the fact that the English gold reserves are insufficient, and therefore you think that the Indian Gold Reserve would be in danger of being used for other than its proper Indian purposes?—In the event of a grave national crisis, yes, not in any other circumstances

6289 You criticise the English position because in your opinion we have too little gold in reserve?—I think so, I think the reserves of gold in England are dangerously small

6290 They are less in proportion than those of any other great Power?—Yes, I do not think we should necessarily hold the same proportion as any other great Power, because I think that the smallness of our gold reserves is in a measure a barometer of our civilisation, but I do think that the reserves of gold in London at present have been cut a little too fine

6291 On the other hand, we have, I suppose, a larger gold currency in actual circulation than any other nation?—Yes, I should think so

6292 From this point of view is not the salient difference between our system, and, say, that of France, that they have their gold in reserve and tokens in circulation, whilst we, to a much larger extent, have our gold in circulation instead of in reserve?—That may be so to some extent, yes

6293 So far as that is true, does not the present Indian system approximate to that of France and differentiate itself from that of England?—Yes to some extent.

6294 The effect of the present system in India being to put a much larger proportion of gold into the reserve and a less proportion into the currency?—Yes, but in the case of India it is very much more dangerous, because I think India is not in a position to maintain the currency in the same way that France is I think it is attended with very much greater risks in the case of India than it is in the case of France

6295 Then am I right in thinking that if your policy were carried out you would reverse the position in India, you would draw the gold out of the reserves and put it into circulation?—No, not out of the reserves Assuming a large gold currency in India, there is only one reserve in which gold would or need be held, in my opinion, and that is the Paper Currency Reserve Apart from that, for the strengthening of the credit and reputation of India I should like to see as much gold in circulation as possible, but not at the expense of the Indian reserves

6296 We have already agreed that, in so far as gold in circulation takes the place of either notes or rupees, it must be at the expense of the Paper Currency Reserve?—Yes, in so far as it takes the place of that currency

6297 Would not the net result of that policy be to reproduce in India the position which you criticise in London, namely, to produce a condition of things in which there would be comparatively little gold in reserve, though there would be great quantities in circulation?—Not necessarily, I think, because gold in free circulation need not of necessity be accompanied by small gold reserves In the case of London the small gold reserves arise from no other reason

than the disinclination of the bankers to pay the cost of keeping higher ones, that is all

6298 Is it your view that Indian bankers would be wiser or more patriotic, and that they would make good the falling-off in the Paper Currency Reserve and keep as well any additional reserve that was needed?—I do not see that the Paper Currency Reserve will, or need, diminish with the increased use of gold as currency in India I think with the development of the country, which is going on at a very rapid pace, there will be an increasing use both of paper currency and of gold in India

6299 (Mr Keynes) May I ask a question? You are clear that the gold which you wish to be in circulation is not to be in place of notes, and is not to be in place of rupees?—Largely, yes In the course of the development of the country the gold will come in I do not think that the new gold will come necessarily with such rapidity as to displace the present token currency altogether It will possibly at first displace it to a small extent, but what I am anxious is that in the growth of the currency which is now taking place the additions should not be made in depreciated silver tokens, but rather in full value gold coins

6300 (Chairman) So that as that growth proceeded, the addition to India's gold would remain in the form of currency, but not in the form of reserve?—Both, I think

6301 How could it be both?—Because the country is growing the whole time, and needing more currency the whole time, and also it is advancing in civilisation, so that there would be, with an increasing use of gold as currency, a constantly increasing use of notes against which gold or securities would be held in the Paper Currency Department

6302 You look forward to such a growth that there would be plenty of room for the addition, I think you said, of something like 70 millions of gold to the circulation?—Yes

6303 And at the same time for a considerable addition of notes?—Yes

6304 Without any contraction of rupees?—Without any very serious contraction of the rupee circulation other than arises from the normal and regular export of rupees from India to East Africa, &c I think I estimated that it would take 7 to 10 years, perhaps, to bring about this state of affairs

6305 I think that is a sanguine estimate I have asked you all the questions which I want to put, but before you leave the chair I should like to give you an opportunity of adding anything If there is anything you would like to say to which our previous questions have not given occasion, that is, of course, anything within the terms of our reference, please say it—There are one or two matters in which I should like to supplement the answers I have already given

6306 Please do?—Firstly with regard to the questions put to me by Sir Shapurji Broacha on the subject of my opinions now being different from—in fact, diametrically opposite to—what they were 15 or 20 years ago Several critics have drawn my attention to this fact, and I should like to explain to the Commission the reason why I advocate a freer use of gold now rather than a freer use of silver Fifteen or 20 years ago prices all over the world were diminishing, prices were going down, and money was appreciating in value The construction which I put upon that was that there was not sufficient metallic money in the world to go round, and therefore that it was desirable to add to the metallic money available Therefore, in the case of India I advocated the further coinage and use of silver money But since then the position has been entirely reversed, and the output of gold has now become so enormous that to that gigantic output I attribute the fact that prices all over the world are rapidly rising, which I regard as an indication that the metallic basis, gold is more than adequate for current requirements In those circumstances, I think to add more silver to an already abundant supply of gold money is a very grave blunder, and that it is calculated to produce very serious economic crises all over the world owing to well-to-do people being tempted to over-trading and over-speculation and the poor

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population being pushed on to the verge of starvation. For these reasons I strongly protest against the coinage of further silver money where it can be avoided, and for those reasons I advocate the further use of gold. That is the explanation of why my attitude now is different from what it was 20 years ago. Then with regard to hoarding in India, upon which two or three questions have been put to me, I should like to correct, if I may, misapprehensions which exist with regard to hoarding in India. In the first place, a very large proportion of the population—over 90 per cent—are illiterate, and this Commission, I think, will easily see the difficulties of advocating the use of cheques and banking and paper currency amongst a population, 95 per cent of whom are unable to read or write. There are difficulties in the way of a very rapid development of banking and the use of paper money. Then, again, a very large proportion of the population live 20, 30, 40, or 50 miles away from a railway, and consequently it is extremely difficult for such people to put their money in banks and draw cheques on it. They must take their money away, and they must keep it in their houses, and for that reason they must keep a good deal of money on their persons or possibly buried in the ground, but I do not regard this as a sign of inherent viciousness on the part of the peoples of India, nor do I think that the peoples of India hoard gold so that it disappears and nobody will ever see it again. I am perfectly certain that, as education advances and as the railways are constructed, more and more of this money will come into circulation. The peoples of India are certainly as far seeing and shrewd in commercial matters as the peoples of any other country in the world, and I am quite certain that this money will come into use and will in time be banked and will be employed exactly as we use it. I do not see, therefore, any fear whatever of gold going into India in enormous volumes and never being seen again. I think that is a bogey, which only scares those who have no knowledge of present-day Indian conditions.

6307 You view is that at the present time the natives hoard because they really have no alternative?—From force of circumstances largely, partly, of course, from old associations and the feeling of insecurity, which has not altogether disappeared but also partly because of the force of circumstances—partly because there is no other way in which they can handle their money. That is a point which I want to make with regard to hoarding. Then there is one other point I should like to bring to the notice of the Commission, and that is this. Whilst advocating the increased use of gold in the general interests, because there is so much gold about that prices are rising very largely—that is the general argument—quite apart from that I maintain that everywhere in the world it is recognised that people who use gold money for everyday purposes are at a more advanced stage of material development than people who are using silver, and I am quite confident that if India were using a gold currency freely she would stand very much higher in the estimation of the world generally than she does at present.

6308 You take a gold currency as marking a superior stage in civilisation to a silver currency?—Yes, but not so advanced, of course, as paper. It must

not be supposed for a moment that I am not under standing of seeing the use of paper currency, but in the case of India the great majority of the people, as I say, cannot read or write, and circumstances force them to hoard. Another consideration is that the conditions of climate make the use of paper currency exceedingly unpleasant sometimes, as a great many people must know who have to handle extremely odorous 10 rupee and 5-rupee notes. With all those circumstances taken into consideration, I think it is advisable, in the interests of India, that she should use gold freely before advancing to paper in the same way as England has done. I am quite sure that in due course India will use notes and cheques, and the statistics show that banking is increasing at an enormous pace, and that the deposits by the public in indigenous banks are increasing at a phenomenal rate, so that everything is moving in the right direction, and my advocacy of an advance to a gold metallic currency is made largely because I think it will add greatly to India's credit and reputation if she uses gold the same as English people all over the world use gold. I feel that in this matter it is up to us to give to India the very best metallic currency that we can before we commence to talk about paper, and because I think we ought to give India the very best metallic currency we can, and because the world conditions permit of the use of gold without doing anybody else any injury. I have for two or three years past urged the opening of the Indian Mints to the free coinage of gold, and the use of sovereigns as daily currency in India.

6309 I will just ask one question on that. Would you agree that the tendency of recent years among the great financial powers has been to make gold less and less the medium of internal exchange and to reserve it merely for the purpose of balancing external exchange? Yes, undoubtedly, and at a later stage, when India is using gold very freely as currency throughout the country, there will be plenty of time, I argue, for India to think about reducing her use of gold, but in the case of India which is in many respects a backward country, it is impossible and undesirable to jump over the intermediate stage and to try to stimulate the universal use of paper before that widespread confidence has been established which you get from the free use of gold money.

6310 She must not profit by our experience, but she must really learn for herself?—You must go step by step, because the people cannot read and write, and in many respects are very ill-informed.

6311 (Sir Shapurji Broacha) May I ask one question of fact? You know that gold production had gone down in 1887 to about 19 millions, but in 1898 it had gone up 300 per cent again when you wrote that statement upon which I questioned you, and it was going up higher?—The output of gold was going up, yes, but up to 1898 the general level of prices had not been sufficiently affected to make it certain that it was desirable to alter our policy. Although the output of gold was increasing, the general level of prices throughout the world had not yet swung round, so that I could not be certain in 1898 that the output of gold was really so great as to make it desirable for India to use it then as currency.

The witness withdrew.

Mr WILLIAM BERNARD HUNTER called and examined.

6312 (Chairman) Will you state first of all what your experience has been?—I have been for 25 years in the service of the Bank of Madras, the last seven years of which I have been secretary and treasurer.

6313 You are resident in India?—I am resident in India, yes.

6314 You have submitted a memorandum of the evidence which you offer, and I propose to print that as an Appendix to our Report (Appendix XXIV, page 591). What, in your opinion, is the principal object of the sale of Council drafts? Is it to effect remittances to London on Government account?—Originally the sole purpose

was for the transfer of funds on Government account, but since the closing of the mints I think that that is of secondary importance now, especially with regard to the conditions of the London money market. Otherwise than by very large shipments of gold, at a time which would probably be inconvenient, there is no other means of paying for the balance of trade.

6315 So that, in your opinion, at the present time the primary use of the sale of Council bills is to settle the balance of trade?—I think so, yes.

6316 Will you please explain in rather greater detail the method which you suggest might be adopted

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for providing the Secretary of State with funds in London as an alternative to the system of Council drafts, so far as these latter are regarded as merely a means of effecting remittances home?—The Government of India would be able to buy bills on London in India quite easily, primarily from the exchange banks. They could do so daily through brokers at various centres, Calcutta, Bombay, Madras, Karachi, Rangoon, and even in Northern India, and to meet the requirements of trade in that way there would be no difficulty in purchasing sufficient bills, primarily from the Exchange banks, and, if they were not sellers, then from the open market.

6317 Do you see any advantage in following that course rather than the present one?—No, there is no real advantage in that.

6318 It being, in your opinion, the fact now that the main object of these sales, or the most important object which they serve, is to settle the balance of trade, what would you say to the criticism that that work is not really the business of a Government Department?—Since the closing of the mints, the Government of India have practically undertaken to keep exchange steady, and therefore it could not be done by anybody else. It must be kept on by the Government.

6319 Do you think that nobody but the Government could undertake that business?—I think not. I think the credit required to maintain exchange takes it beyond any bank.

6320 I think you are in favour of the establishment of a central bank?—I am.

6321 But even if such a bank were established, you do not think that this part of the business could be advantageously transferred to it?—It would naturally be transferred to the bank, but the bank would do the operation solely as agent for the Government, and any profit made on the transaction would be a profit belonging to the Government. As Government would be responsible for keeping up exchange, and any loss must fall upon the Government, they naturally would be entitled to any profit. The advantage of transferring it to the central bank would be that the bank would be more in touch with the general market, and would know what the requirements were—when to sell and when to cease to sell.

6322 But if the responsibility remained on the Government would not the Government have to be strongly represented on such a bank?—Naturally the Government would require to be represented.

6323 The advantage therefore would be that in doing the work they would be associated with experts familiar with the conditions of Indian trade?—That is so.

6324 I think it is your opinion that if the sale of Council drafts were abolished, or if it were limited to the actual requirements of the India Office, the result would be a large increase in the amount of gold shipped to India?—Yes, certainly.

6325 What do you think would happen to the gold when it got to India?—A large proportion would immediately go into the currency reserve for notes to be taken out in exchange. Eventually those notes would be again presented at the currency office for silver, probably silver required in the up country pieces.

6326 Then the first result would be a considerable accumulation of gold in the currency reserve?—A large accumulation of gold in the currency reserve.

6327 What would the next step be? Would the Government have to ship that gold home to London again?—The Government would eventually require to ship that gold home to meet their expenses, and also, when the silver supply ran short, to purchase further silver.

6328 Would the public have to ship gold home as well as the Government?—I do not think so—not at that stage. The public would only have to ship gold home later on should the exchange go against India.

6329 The net result would be the shipment of a good deal of gold to India, but it would only remain there temporarily, in your opinion, and it would have to be remitted home again?—Yes, it would have to be remitted home again.

6330 That would be a costly operation?—It would be a costly operation.

6331 With no advantage?—With no advantage. In fact, it would be a disadvantage, because it would tend to raise rates in London.

6332 I now turn to the question of the rate at which Council drafts are sold. I am not quite certain what your view is. Do you hold that no sales should take place under 1s 4d?—Yes.

6333 You assume that the gold point is always over 1s 4d?—I assume that the gold point is always over 1s 4d.

6334 Suppose the Secretary of State is absolutely in need of funds at home, but could not sell at 1s 4d, would you allow him to sell below?—No, I think he should not sell below 1s 4d. He would only be absolutely in need if the whole of the Gold Standard Reserve had disappeared. If it comes to that point, the next step, the final step, must be to borrow in London.

6335 You think that the moment he is unable to obtain the rate of 1s 4d he ought to have recourse to the Gold Standard Reserve?—If he is in absolute need of funds he ought to have recourse to the Gold Standard Reserve or the Currency Reserve, first, if there is gold in the Currency Reserve.

6336 I think for the last few weeks the Secretary of State has actually been selling 20 lakhs a week at a rate below 1s 4d. That you would say was wrong?—I would not approve of that.

6337 Unless he needed money immediately?—And even then, with gold in the currency chests in London, there is no necessity to sell below 1s 4d. Rupees could be placed in India and gold released here.

6338 What is the object of your proposal that when bills cannot be sold at 1s 4d in London, they should be immediately offered at 1s 3½d in India?—In order to maintain exchange at about 1s 4d, and to maintain confidence.

6339 The Government of India would make a profit on that transaction, would it not?—Having sold at a higher rate previously in London, they would make a profit.

6340 Would the business have any connection with the remittance of funds on Government account to London, or would it be done merely and openly for the convenience of trade?—I am inclined to put it rather that it would be done openly in order to maintain exchange, which the Government have practically undertaken to do. It is not only necessary for them to maintain exchange for their own requirements, but also for the benefit of trade.

6341 So that I take it it comes to this, that you want to see the Government supporting exchange continuously?—Continuously.

6342 And at an absolutely fixed point?—Yes.

6343 And not waiting, as they did in 1907, until the strain really threatens to break down the exchange altogether?—That is my opinion.

6344 Should I summarise your position rightly if I said that this Council draft system has two objects—I do not give them in your order of importance. First, the remittance to London of the funds required by the Secretary of State, and, secondly, the settlement of the balance of India's foreign trade?—Yes, I agree to that.

6345 Further, that as at present managed the sales of Council drafts do not fulfil their second function, which you regard as the more important, so well as they might do, because there is no settled policy as to the sale of similar drafts in India?—Yes, I agree to that.

6346 And that, consequently, it would be desirable to find some way of distinguishing clearly between the two functions of the sale of Council drafts?—I do not think there would be any object in distinguishing between the two.

6347 Provided the result is obtained?—Provided the result is obtained. It might be a facility if the Secretary of State kept two balances in London, one a working balance and the other an exchange balance but I do not think it would be necessary so far as the general public is concerned, that they should know how

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much was in the working balance and how much in the exchange balance

6348 With reference to your statement as to the way in which Council drafts should be met, have you any criticism of recent actions by the Government of India or the India Office in regard to the sources from which the sales have actually been made?—The sales are made always from the Treasury balances so long as sufficient rupees can be scraped together from anywhere. The consequence is that it makes restrictions in the money market in India. Of course, it is not so material at present, because in any case revenue as it is collected in India is locked away out of the hands of banks, and of no use to anyone

6349 From what source would you meet them if you would not meet them from Treasury balances?—I should meet the sale of Councils first of all for the Secretary of State's immediate requirements from the Treasury balances, and if money was really easy in India I should continue to draw on the Treasury balances. As soon as the rates stiffened up it might be drawn from the silver portion of the Gold Standard Reserve, and that would not necessitate the earmarking of gold in London. As a last resource, I would do it from the Currency Reserve, which would mean the earmarking of gold in London

6350 You would prefer to see a much freer recourse to the Gold Standard Reserve?—Yes, undoubtedly

6351 And you have no fear that, using it as freely as you propose, it might be found deficient in time of severe crisis?—I think not

6352 One of the features which the Indian Government and the Secretary of State have constantly to keep in mind is, of course, the amount of their liabilities in London, and particularly the interest on their debt incurred in London?—Drawing on the Gold Standard Reserve would be providing funds in London for that purpose, and equally on the Currency Reserve. The gold would be in the Currency Reserve and the silver would be released in India, which could be replaced, and the reverse operation put into force as revenue came in

6353 I suppose you would hold that the less the Government of India has to borrow in London the better?—Within certain limits I am strongly in favour of borrowing in London for further development of India so long as the London money market will take up the securities without unduly depreciating the price

6354 Would you or would you not prefer to borrow in India if you could borrow there on equally favourable terms?—If you could borrow in India on equally favourable terms, by all means borrow in India freely

6355 Would you go a point further and say that it was worth while to pay a little more in India in order to have fewer liabilities in London?—I think not, unless, by floating more loans, you could extract hoards

6356 Do you think more could have been borrowed in India than has been done in recent times?—Not to any material extent

6357 You do not think that the issue of loans in India would extract the hoards?—I think not

6358 There have been some very successful issues in India lately?—Yes

6359 Do you know whether small men have taken a share in those loans?—They are chiefly confined to large institutions and large people. Last year it was taken up practically by one man

6360 They do not get passed on to the little man?—Afterwards, there is a fair amount of investment demand throughout the year on the part of small people

6361 As that habit grows will it not tend to produce a bigger market for the loans?—Undoubtedly. It should be so

6362 At present you do not think there is any material demand on the part of small people?—Not any material demand. There might be if the negotiability of the notes and the collection of interest were made easier, and there was less trouble in the event of the death of the holder. If troubles of those descriptions could be minimized, Government paper would probably become more popular

6363 Are those troubles in regard to the registration of stock and transferring stock?—In India the paper is generally transferable by endorsement, unregistered, and then the great difficulty is when these notes come into the Public Debt Office, with regard to the endorsement—illegibility or slight differences in the signatures

6364 I turn now to the management of the balances. Have you any criticisms to offer as to the size of the balances, either in London or India, of recent years?—The balances have undoubtedly been abnormally large, but I think that is due to unusual circumstances, and I see no reason to complain of the position

6365 You recognise that they have been abnormally high, but under the circumstances you make no complaint of that?—I make no complaint of that

6366 Do you criticise the fact that so much of the balances has been brought to London or not?—I see no reason why the balances should not be brought to London as they were. There was plenty of money left in India, we were not restricted in any way by the fact of the large sales of Councils, because there was still plenty of money available to be lent out if it could have been

6367 You think that some of the money which was in India should have been available for the market?—It should have been available, yes

6368 Assuming the continuance of the present state of things, I will come to the question of the Central Bank later—to whom would you recommend that such loans should be made?—My contention is that the Government of India should never withdraw currency from actual circulation, as quickly as it is withdrawn it should be put back again

6369 Put back into the banks?—Yes, into the banks

6370 Would you think it right for the Indian Government to require security from the banks?—I do not think it is necessary

6371 The Indian Government, I think, already keeps considerable balances free with the banks?—They keep certain balances

6372 You do not propose a mere unlimited addition to their non interest-bearing balances with the banks do you?—I should say it would be in the interest of the country at large if their balances were put in freely without interest, in the same way that Government balances in England are placed with the Bank of England

6373 Without interest and without security?—Without interest and without security. If the banks have to pay high rates of interest to the Government of India it will then be impossible for the banks to finance trade at cheap rates. There would still be the higher rates of interest

6374 (Sir Robert Chalmers) Is that true universally? The rate at which you can lend depends on the rate that you pay, does it not?—Yes

6375 Therefore, perhaps you would qualify your previous statement and not make it too universal. There would always be the power of lending at a moderate rate if a moderate rate were charged?—If a moderate rate were charged, yes, to that extent it would be so

6376 (Chairman) And any addition to the amount of money available for loans would tend to the reduction of the rate?—Yes

6377 Would you advocate the closing of the reserve treasuries and the transfer of all the balances to the existing Presidency banks?—I think that would be a move in the right direction

6378 There are many places where there are Treasuries, but where the banks are not at present represented, are not there?—Yes, there are many places where the banks are not represented, but with more money the banks could then open many more branches

6379 I think we have had it in evidence that the Government have been endeavouring in recent years to get the banks to open at fresh points?—They offered certain conditions they offered a free balance of three lakhs of rupees for a term of five years for a new branch that was opened, but at the end of that



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five years the balance was then reduced to a mere nothing, and with the opening of that branch the bank has to undertake to do a lot of work for Government. It really means that you have to keep up a large staff, they have to keep two Europeans in the branch instead of one, and in other ways it is very expensive, so that the conditions offered are really no inducement excepting for the five years that they are in operation.

6380 So that, in your opinion, the extension, as far as it has taken place, has not been profitable to the banks?—It has not been profitable to the banks.

6381 On the other hand, we have had it in evidence that it has not been profitable to the Government in the sense that the balance which they have had to leave with the banks has been higher than the balance which they need have kept for themselves?—I think, as a matter of fact, so far as the Bank of Madras is concerned, which I represent, we only opened three new branches, and that meant nine lakhs of rupees, which is not a very large sum of money, and, so far as I know, there were not very many branches opened by the other Presidency banks.

6382 I think we have had it shown to us, that owing to the convenience which the Government possesses in the currency chests, they were actually able to work on smaller balances when they had the reserve treasuries open than they had to lodge with the banks in order to induce them to open and take the business over?—Yes.

6383 (Mr Gillan) That merely means that in the case of these three branches which you opened we could probably have run in place of those three branches three treasuries ourselves with less than a minimum of nine lakhs?—Yes, undoubtedly you probably would have run it on the balances that you now leave with us—about half a lakh at each branch, that is to say, about 3,000 at each branch.

6384 (Chairman) Altogether that does not seem a very hopeful reform, does it? You represent to us that it is unremunerative to the banks?—Yes.

6385 And the Government have represented to us that it locked up more of their money than was otherwise locked up?—Yes, but I think that perhaps indirectly the Government gain by the banks extending business.

6386 (Mr Keynes) You do not maintain that it is unremunerative to the banks during the five years, do you, it is only after the five years?—It is only after the five years. During the five years that the agreement is in existence it is quite a good remuneration, and a good profit is made.

6387 (Chairman) I had not understood that, I am glad of the correction. How far do the sales of Council drafts act in releasing funds in India? Suppose the India Office sold them in the busy season to such an extent as to use up the extra six crores which the Government collect as a balance against the summer and the autumn, would that meet your difficulty?—It would be an assistance, but the fact remains that the first step in the operation is the contraction of currency by the withdrawal of revenue from the market, and the sale of Council bills only comes into operation when the produce has reached the coast and is being exported. The inland trade is therefore starved, in fact the rates are high and it is difficult to get it financed, and people have to part with their crops at any rates that they can get for them.

6388 You spoke just now of the Indian Government imitating the English Government in keeping its balances with the Bank of England. I think the British Government from almost the commencement of its financial year is a borrower, the bulk of its revenue comes in late in the financial year, and therefore when that comes in the Government uses it to pay off debt incurred in the earlier portion of the year, and does not swell its balances. It does not remain in the Bank of England, though it may pass through the Bank of England. Is the position in India at all similar?—No, the position in India is not. The Government never borrow from banks except in the form of the open loans which they put on the market.

6389 So that the comparison with England is not quite complete. In England the Government is really returning to the money market money which is borrowed from it?—I misunderstood that. The statements of the Bank of England do not show that. They always show a very large sum deposited as public deposits.

6390 Perhaps I ought to say that I am speaking now of the Exchequer balances, not of the gross balances?—Of course the gross balances are what I was talking about. It always shows in the Bank of England statements very large sums due.

6391 If your policy were not adopted, would you advocate the making of loans from Government balances in the busy season to the Presidency banks?—Yes, I think that would be a step in the right direction.

6392 In that case interest would have to be charged?—In that case interest would have to be charged.

6393 Something a little below bank rate I suppose would meet the case?—I should put it at the rate which banks are offering for short term fixed deposits.

6394 Do you think such loans might be made to other banks besides Presidency banks?—I think within reasonable limits.

6395 Not without security, I take it?—To some banks I think decidedly without security.

6396 Would you lend to private firms as well?—I think not.

6397 Do you think that Government ought to lend to any bank either in India or London without security?—Do you mean lend to any bank without restriction?

6398 I mean no matter how secure the bank, I am not reflecting on the bank, I am assuming that they have chosen the soundest bank that they can find. Do you think that even then a Government ought to lend without security to a bank?—I see no great objection within limits.

6399 You think there would be no objection?—I see no real objection within limits.

6400 (Sir Robert Chalmers) There would be no objection on the part of the banks, anyhow?—Certainly there is no objection on the part of the banks.

6401 (Chairman) Do you think that a large sum would be taken by the banks if the Government were willing to lend it, or would a small sum meet all their requirements?—At first I do not think very large sums would be required, probably from three to four crores would see you through the busy season.

6402 (Sir Robert Chalmers) Do you mean for all the banks, taking India as a whole?—Yes, taking India as a whole I think three or four crores would ease the situation very much.

6403 (Chairman) You say that would be sufficient at first?—Yes.

6404 Do you look forward to the demand growing?—I look forward to the demand growing. Probably the banks would then be enabled to carry more Government securities, and so help on the development of the country.

6405 (Sir Robert Chalmers) You think that there would be a growing demand by the banks for assistance from the Government?—I think probably so.

6406 You do not think that that extra demand on the Government would be relieved as time went on by new sources in their own domain coming to the banks?—To a certain extent, but the deposits grow very slowly. We find that as we extend our branches out into the outlying countries the demand is always for loans, the amounts which have come in on deposit are quite infinitesimal.

6407 As I understand it, you told us that there would be a growing dependence on Government?—That as we extended we could utilise more funds.

6408 You have to get those from the Government?—Yes, because Government have withdrawn it from circulation at the busy season. India is so much a seasonal country, for six months in the year money is very tight and for the other six months it is very easy, and the time when money is very tight is the time when Government balances are particularly high.

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6409 (*Chairman*) It is at the moment of the great demands that Government collects the major portion of its revenue?—Yes

6410 Or at any rate a large portion of its revenue?—Yes, it is just at that time

6411 You would not suggest that the Government could alter its period of collection?—No, I think that would be impossible. They collect the revenue as the crops come in, and if they did not do it then they would have difficulty in doing it at all

6412 It is a necessity of the situation that the demand of the Government should synchronise with the demand of the trade?—I think so

6413 If the market received such assistance as you have suggested through loans from the Government to the banks, and had got into the way of expecting it, what do you think would happen if in some particular year it was inconvenient to the Government, or impossible for the Government, to give it?—In such a year I should imagine that the reason why Government were unable to find the finance would be that the revenue was not coming in, and therefore the money would not have been withdrawn from active circulation and the crops would be short, and a very much less amount of money would be required to finance

6414 Is there not another possible contingency, that the revenue might be coming in but it might be going out even faster, that is to say, you might have a war, for instance?—There is a possible contingency there

6415 Would you fear the creation of a crisis by the sudden withholding from trade of the assistance upon which it had come to rely?—It would not be pleasant, but I do not see that there would be any great danger if the banks were given the power of borrowing elsewhere

6416 Borrowing where?—In London

6417 As an alternative to loans from the balances it has been suggested to us that loans might be made from the Paper Currency Reserve. Let me just ask one question at this point. Suppose such loans were made from the Paper Currency Reserve, would you regard that as a complete solution of the question, or would you still think it necessary that the large balances in reserve treasuries should be lent out as well?—I would not consider it as a complete solution. I think that undoubtedly the first place the loans should come from are the idle balances lying in the reserve treasuries and that the loans from the currency reserves should be more or less a last resource

6418 Would it not be the case that the time at which such assistance would be required by trade would be just the moment at which you could most readily afford to withdraw something from the currency reserve?—Yes, I think so

6419 I will put it in this way to make my meaning clear. That would be the time when the circulation of notes would be tending to rise, not the time when they would be coming back for encashment?—No, I think as a matter of fact during the busy season the demand is largely for specie from the currency, and that the notes in which the reserves at the bank are held are presented at the currency for encashment. It might not show actually in the note circulation returns because there you have to take into consideration the number of notes which have come back into the treasuries, and are held in the treasuries up country

6420 (*Sir Robert Chalmers*) But taking the circulation as a whole, it would be a time when the circulation would be larger?—Probably—the apparent circulation.

6421 But not the real circulation?—I do not think the active circulation would be larger

6422 (*Chairman*) Not the active circulation of notes?—No, but I cannot speak authoritatively upon that, because I have never had the figures to show what proportions of the Treasury balances held in those numerous treasuries up country are held in notes and coin

6423 (*Sir Robert Chalmers*) If the total circulation with which the Paper Currency Department is primarily concerned were large, then that would allow of the fiduciary portion of the issue being more safely lent out at a time when loans would be very valuable to the

trade and when it would be, on this hypothesis, safe to lend it out. Do you agree to that?—In my opinion it is the active circulation which is the important basis

6424 (*Mr Keynes*) Is it not the case that the active circulation is greatest in the busy season?—I do not think so

6425 I have the figures before me, and in all recent years the maximum circulation has been in January, February and March, and the minimum in June July and August. For instance, in March 1911–2 the active circulation was 44½ crores, and in June of that same year it was 38½, that is to say the active circulation was 6 crores higher at the end of the busy season than it was in the dull season?—Can you tell me exactly how the active circulation is arrived at?

6426 The active circulation is the gross circulation less the holdings of treasuries and Presidency banks?—Less the holdings of all the treasuries, or only the reserve treasuries?

6427 Of all treasuries, I think

(*Mr Gullan*) Yes. In the last Currency Report it says “As usual, the aggregate amount of notes in the hands of the public”—that is the active circulation—“was greater during the winter months than at other times of the year”

6428 (*Chairman*) Taking the figures which have been suggested to you, and assuming the accuracy of them—?—Then I must withdraw my statement

6429 Then you would agree with the suggestion I put to you?—Yes

6430 That the time when trade most requires assistance is the time when the currency reserve can best afford to give it?—Yes

6431 (*Chairman*) I come now to the question of the Gold Standard and the Paper Currency Reserves. Do you regard the keeping of a Gold Standard Reserve as necessary?—I do not know that it is essential, but it is desirable

6432 Do you approve of the present distribution of it between India and London?—Yes, certainly

6433 You raise no objection to keeping a portion of the Gold Standard Reserve in silver in India?—At times it will be necessary if you keep the reserves separate, at such times when India has to sell on London the proceeds of the drafts must go into the Indian silver branch. I do not know that it is necessary always to keep six crores in silver, but it is helpful to the currency reserve, and it enables more gold to be held in the currency reserve, and I see no objection to it

6434 As far as there is silver in the Gold Standard Reserve, I understand you think the proper place for that silver is India?—Yes

6435 On the other hand, so far as the Gold Standard Reserve consists of gold or gold securities you think the proper place for it is London?—Undoubtedly

6436 Will you give me your reason for that?—Because it is only in London where it will be required

6437 Have you any figure in your mind for the total to which it should be sought to raise the Gold Standard Reserve?—In my opinion the Gold Standard Reserve should be increased continually as long as new rupees are being coined. The difference between the price of the silver and the circulating price should practically be held in trust for the public, and should be invested

6438 Would you continue to put the whole profits of the silver coinage into the Gold Standard Reserve?—Yes, into the Gold Standard Reserve

6439 You would continue that practice indefinitely?—Indefinitely

6440 As regards the form in which the bulk of the Gold Standard Reserve should be kept, would you keep any portion of it in gold?—I do not think that it is necessary to keep actual gold when the gold in the currency reserve is strong

6441 Provided therefore there was a large amount of gold in the currency reserve, I understand from what you say and from your memorandum (Appendix XXIV, paragraph 11, page 592) that you would invest the whole of the gold reserve in securities?—Yes, that is right

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6442 Not merely in short dated securities?—No, a portion of it should be in short dated securities and temporary loans, but a large portion might safely be permanently invested.

6443 I think in paragraph 12 of Appendix XXIV (page 592) you suggest that in case of a heavy demand falling on the Gold Currency Reserve there would be no difficulty in realising such securities in London?—I think not, if your reserve of actual gold in the currency reserve was large, and you first released your gold and then immediately afterwards sold or borrowed on the securities.

6444 You would treat the gold in the currency reserve as—?—As the first line of defence.

6445 As the first line of defence for the exchange?—Yes.

6446 And only as you were coming to the end of that would you think it necessary to realise the securities?—No, I should do it practically simultaneously—release, say one million from the gold reserve and simultaneously either sell the securities or temporarily borrow upon them, but the releasing of the gold would prepare the markets.

6447 Suppose at the present moment it was necessary to have recourse to the Gold Standard Reserve, do you think that you could sell 10 millions of securities on the London market?—I think if you first released 15 millions of gold and placed that in the Bank of England you would not have very much difficulty in arranging for that. If they did not actually buy your securities they would temporarily advance against them. At present the proportion is one-and-a-half in gold to one in securities. That seems to me to be a very strong position.

6448 You think the gold released in India from the Paper Currency Reserve—?—It would have to be released in London. It must be released in London. You would immediately stop issuing gold in India at once.

6449 In the case of such a crisis you would refuse to issue gold in India?—I would refuse to issue gold in India, because the gold issued in India immediately goes into the hands of the bullion dealers. They take it up as a speculation, they can get it very much cheaper than they can by importing gold.

6450 Do you think the gold released in India or gold in circulation in India is not available for the support of exchange in a crisis?—I think not. I do not think it would ever be forthcoming in any large quantity.

6451 Then your suggestion that it is safe to keep the London portion of the gold reserve in securities is based upon two assumptions, first that there will be a large quantity of gold in the currency reserve, and secondly, that that will immediately be used in case of need in London?—Yes, in London.

6452 And would be refused to India?—It would be refused in India. It would not be necessary in India if the Government sells sterling bills immediately.

6453 (Mr Gillan.) May I ask at what point you would stop this giving out of gold in India? What I mean is that a crisis generally seems to come on very gradually, and you have, perhaps very considerable withdrawals of gold going on, presuming they are going on at this present moment, you are weakening your position before the actual crisis comes?—You are weakening your position by issuing the gold. I should stop issuing the gold from the reserve in India immediately the Secretary of State was unable to sell his Council bills at 1s 4d and simultaneously offer to draw on London.

6454 (Chairman.) I think the effect of what you have said is that you would to a large extent use the Paper Currency Reserve as a first line of defence for the Gold Standard. In view of that fact, and of what I think is a fact, that the Indian branch of the Gold Standard Reserve is very largely a Paper Currency Reserve, what would you say to the possibility of amalgamating the two reserves?—I do not think that the amalgamation is really desirable. I can see no benefit in so doing, and it rather hides the position. If you show great strength in a special reserve specifically for keeping up exchange it has a good effect.

If you amalgamate the two reserves, the only thing that I can see would happen would be that you would increase the amount of silver held by, say, six crores and the invested portion by 15 millions and perhaps two millions in gold, and against that you would have to issue in India the equivalent in notes, and if you utilise those notes for public works then your Gold Standard Reserve has disappeared, if not, you are simply holding the reserve nominally in India in notes.

6455 I think some of the criticism which has been directed against the management of the two reserves has been that they have been to the extent that you advise interchangeable. It has been objected, for instance, that the object of the Paper Currency Reserve is to guarantee the encashment of rupee notes in rupees, and therefore any gold there is out of place, but the object of the Gold Standard Reserve on the other hand is to guarantee the exchange, and therefore any silver there is out of place?—But if the reserve will answer the two purposes it surely would be a mistake to earmark it for one only.

6456 You do not think that any serious confusion arises from the existing practice?—Certainly not.

6457 In paragraph 16 of Appendix XXIV page 593, you say "The invested portion of the reserve"—I think you are speaking of the Paper Currency Reserve—"lacks elasticity, and in this respect the Paper Currency Act requires amending." Will you tell me what is in your mind as regards an amendment of the Paper Currency Act?—At present under the Act the total amount of fiduciary issue is limited to 14 crores against the circulation of something like 66 crores at the present moment, and at a time of active trade when there is a demand for more currency it would be a great advantage to increase the fiduciary issue. I think that probably it might safely be increased to a proportion of the total circulation.

6458 To what proportion would you say?—I would say up to perhaps 35 to 40 per cent, and that assuming that you had invested up to 40 per cent and notes then came in for encashment, it should not be necessary immediately to realise your securities until such time as the percentage reached something between say 55 and 60 per cent.

6459 I do not quite follow that. You would raise the proportion of the fiduciary issue by law to about 40 per cent?—Yes, you could invest up to 40 per cent. Assuming that you have invested that 40 per cent and notes come in for encashment, your specie reserve would then have fallen below 60 per cent, but I would not say that you must then immediately sell your securities, because that would tend to bring about a crisis, but you would allow the invested portion to rise to about 60 per cent.

6460 You would be getting into a rather dangerous position by that time, would you not?—Naturally, before you reached your 60 per cent you would be gradually realising. That would be the limit, but it would be dangerous to force you to realise immediately you reached the 40 per cent.

6461 It has been suggested to us that if the proportion of the fiduciary issue were increased, as you propose, it might be wise for the Government of India not to invest up to the full limit allowed in permanent investments, but to keep a proportion from which they might make those loans to trade which you think so desirable?—That was my idea—for that purpose specially.

6462 That they might lend temporarily?—Yes.

6463 On securities?—On various securities, trade bills among them. Perhaps the best class of security would be foreign trade bills, naturally they would turn themselves into cash in a very short time.

6464 You would not insist upon the deposit of Government securities?—Not necessarily, I think not. Of course, what I strongly advocate is a central bank with the note issue, and then the general assets of the bank would be held against it.

6465 Before we come to that I want to ask you one or two other questions. Have you any general observations or criticisms upon the present management of the note system apart from its inelasticity?—

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[Continued

I think that more could be done to popularise the circulation of notes by the opening of numerous currency agencies where, not necessarily by obligation to be imposed, but in practice, notes would be freely encashed, and *vice versa*.

6466 Where Government would undertake to cash them as long as it was convenient?—Yes as long as it was convenient.

6467 But without undertaking a legal obligation?—Yes, and where they would be prepared to go to the expense of remitting coin when necessary.

6468 Would you suggest that the higher denominations of notes should be universalised?—I see no objection to it. I do not think it would cost so very much. It would undoubtedly cost something to Government, Government would lose what at present they make on the exchange which they charge for currency transfers, as for instance, from Calcutta to Rangoon they charge one eighth per cent, and from Madras to Bombay one sixteenth per cent, and so on. It would immediately lose that, but indirectly I think the gain would cover it.

6469 The internal transfer of money would then be done by notes?—It would be done by notes, and the mere fact that you could transfer notes from one place to another and obtain silver would to a certain extent in my opinion reduce the demand for the coin.

6470 Now let me turn for a moment to the question of a gold mint and gold circulation. You say that in theory there is something to be said on the side of the advocates of the gold mint. What have you in mind?—The mints are closed to silver, and I think it is reasonable that the holders of precious metal should be enabled to turn it into coin of the realm, and in India especially what I really had in mind is that in times of scarcity those that hold gold should be able to convert it readily into coin or the equivalent.

6471 From your observation that you believe in practice the mints would be silent, I gather that you do not think much gold would come in?—I do not think much gold would come in, not sufficient to justify the mints but in place of that the gold could be received and Government could bear the cost of shipping it home.

6472 From your point of view a mint is a rather expensive luxury?—Yes, it would be more economical simply to ship the gold home. While it is in transit it can be held as a portion of the currency reserve.

6473 You do not think they would get the gold produced by the Indian mines tendered for coinage?—They might, but that is quite a small quantity, it is about two or three millions, I think.

6474. You say that in times of stress there is something to be said in theory at any rate for having a gold mint, where natives who have hoarded gold can bring it to be coined?—Not necessarily to coin it in India, but simply to present the gold and have it assayed and refined and get cash for it.

6475 Then, as far as there is in your view any reason for a mint, the purpose would be equally served by an undertaking from the Government to purchase gold?—Yes.

6476 Would not the receipt of gold at the mint be simply a duplication of the existing system by which gold is received at the paper currency chests?—At the paper currency chests it is only sovereigns that are accepted at present.

6477 Not gold in bullion?—No, not gold in bullion, so I understand. Originally, when the mints were first closed to silver, gold in bullion was received, but I understand that that facility has been withdrawn.

6478 Does your experience lead you to think that the public have any difficulty in getting sovereigns when they want them in India?—Not any real difficulty. There are certain restrictions in Madras, I speak for Madras only. Sovereigns are issued in 10,000 at a time only, but I do not think that is any real difficulty. The banks can always get what they want. They build up the reserve themselves.

6479. There is not a very large demand for gold as currency in Madras, is there?—In two parts of Madras. In fact the two native States of Cochin and Travancore since 1903 we have financed entirely by gold, and in

Travancore and Cochin the gold is, you may say, in active circulation now, but that has been the case only since last year. Up till then in the busy season, that is, when the export season was on, gold was circulating very freely in the bazaar, but when the export season ceased and the import season was on—they import very large quantities of rice from Burma—the money that came down from up country in payment for the rice was entirely in rupees, but this last year I noticed that a certain portion of the accumulations in the slack season has been in gold, and I understand that in the Travancore Government treasuries there is a fair amount of revenue now paid by gold.

6480 Does that indicate a change in the habits of the people, does it mean that they are hoarding less?—I think that probably it means that the rupees which they had originally in hoards have all come out now and have been replaced by gold, and it now remains to be seen whether in the future they will be prepared to take all gold or whether we will not have to send a very large quantity of silver down there now. A curious thing is that in those places they will not look at notes.

6481 (Sir Robert Chalmers) Historically gold was a great portion of the currency in Madras?—Yes, but I think in those days the actual circulation was very small, and almost everything was paid in kind. All wages would have been paid in kind, and rents were paid in kind. In fact, in some places in Madras now rents are still paid in kind.

6482 The metallic currency of Madras in the old days was the swami pagoda?—Yes, the actual gold coin.

6483 Gold currency has a historical basis therefore in Madras?—Yes.

6484 (Chairman) I suppose you feel that as bankers your business is to give the public what they ask?—Yes.

6485 But you have a preference, if you could influence them would you influence them to take gold rather than notes or *vice versa*?—I do what I can to influence them to take notes. I am always prepared in the up country branches to buy bills on the centres at a cheaper rate if they will take the proceeds in notes, and to some extent we have been able to increase the circulation in this way.

6486 Will you tell me briefly your reasons for encouraging the circulation of notes rather than gold?—The chief reason to my mind is that the gold would then be in the central reserve, it would be obtainable when it was wanted, and also that the larger your circulation of notes is the smaller the quantity of gold which would be necessary because you would increase your fiduciary issue according to the increase of the issue.

6487 I take it that you hold that gold is a wasteful medium of circulation?—Yes, I agree to that.

6488 That the more it enters into circulation in displacement of notes or rupees the less the profit which the Indian Government can obtain?—Yes.

6489 Further I understand you to hold that gold in reserve is infinitely more valuable for the maintenance of the exchange than any amount of gold in circulation?—Yes, I agree to that.

6490 You say in paragraph 27 of Appendix XXIV (page 594) that the Mahomedan law of succession directly leads to the hoarding of gold. I do not want to go into that at length, but could you briefly explain to me how that is?—We will take the Hindu law of succession. I must exclude Bengal where the laws somewhat different but generally speaking all over India according to the Hindu law of succession the family is an undivided family and the property is divided among the male members of the family, so that although a man may have unlimited means, may have his investments in stocks and shares and deposits in banks, and may even specially insure his life in favour of his wife, yet the widow cannot claim twopence, the only things that she can claim are the gold ornaments which she possesses, and I believe it is now extended to actual gold coin which she has in her personal possession. The man might have no sons, but if there was some

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scamp of a nephew all the property must go to the nephew

6491 So that it is in fact the only provision that a man can make for his wife or daughters?—Yes. Then with regard to the Mahomedan law of succession that is different, because there the wife and daughters are entitled to a certain proportion, but then they are entirely *gasha*, that is to say, they cannot go out, and they are dependent entirely upon agents to look after their affairs, and they are very badly swindled, in fact, they practically get nothing. If I may say so, since I wrote this I have had the advantage of having a conversation with a member of the Egyptian Government connected with finance there. I was talking over the matter, and he told me that exactly the same thing exists in Egypt.

6492 Now I come to the question of a central bank. You are strongly in favour of the establishment of a central bank?—I think it would undoubtedly be a good thing for India.

6493 Am I right in thinking that you regard the reserve treasury system as the chief cause of the annual periods of stringency in India?—One of the causes—the reserve treasuries and also the accumulations in the other treasuries.

6494 It is to remedy that condition of things that you propose the establishment of a central bank which shall hold all the balances of the Government of India, and of the India Office?—Yes, that is one of the reasons.

6495 Will you give me your other reasons?—Such a bank would also have much greater credit, and, with a London office could in times of stress be in a position to raise further finances. Then again, it would do away with the trouble as to where the balances of the Indian Government were to be located. It would not matter whether they were with the London office of the bank or with the Calcutta office, because they would still be available in the reserve of that bank, and would enable it to finance more trade. If they were in London they would also be of assistance in London, because they would be with the Bank of England.

6496 You contemplate that such a bank would manage the paper currency system?—They would take over the paper currency and the bank would be in a position largely to increase the circulation. It would be so much to their interest to increase it, and they would be prepared to spend more in moving specie about for the encashment of notes, looking indirectly to the profits which they would make on the invested portion.

6497 Do you contemplate that the Government would transfer the whole of the profits of the note issue to such a bank?—That is perhaps a matter of detail to be arranged afterwards. I should not think that the bank would ask for the whole profit. I should think that probably the Government would be entitled to the average profit which they had made for the last so many years, and if they were interested in the bank in the way of shareholders as well—and I see no reason why they should not be interested—they would then benefit by the profit made by the bank.

6498 How do you contemplate that such a bank should be brought into existence? Is it to be superimposed on the present banking arrangements of India or is it to have its birth in the amalgamation of the existing Presidency banks?—By the amalgamation of the existing Presidency banks. I do not think there is room in India for a big central bank and the Presidency banks as well.

6499 The mere amalgamation of the banks with their existing resources would hardly answer your expectations, would it?—Necessarily if we were taking over the note issue we would have to increase our capital. That would be expected of us.

6500 You talked just now of having the Government as shareholders. Are you looking to the Government for the increase of capital, or only for a portion of it?—I thought, as a matter of fact, that it would be possible for the Government to take up a great portion of the new capital from their silver branch of the Gold Standard Reserve. They have at present got six crores there, and if they simply put

those six crores into the currency reserve, and issue six crores of notes, the transaction is complete, and it is interest bearing, and the rupees which you put into the currency reserve are just as useful there for the purpose for which they are held as they are at the present moment.

6501 You invest six crores of the currency reserve in bank shares?—Of the Gold Standard Reserve. You put the silver into the currency reserve and issue notes, and thus increase the capital of the bank.

6502 The rock bottom of the whole thing is that you have invested six crores of the Gold Standard Reserve in shares of the Bank of India?—In shares of the Bank of India. It is not necessary that the Government should hold the shares indefinitely, it is only if the central bank is approved that that would be the way in which it could be formed originally, and they could gradually get rid of the shares in the market if considered desirable.

6503 What control of or representation on such a bank do you think the Government would have?—It would be necessary to have a number of local boards in my opinion, you would have one in London, one in Calcutta, one in Bombay, one in Madras, and perhaps, if necessary, in other centres later on, and I think certainly that the Government would be entitled to have representatives on the directorate.

6504 Would you give the Government representatives a veto or would they only vote like their colleagues?—I think the mere fact of their being present would be sufficient. Of course, they would have, indirectly, practically a power of veto, as the central bank would be so much dependent on their goodwill, and if the central bank were doing things of which they did not approve, the Government would immediately withdraw the facilities. It would bring such pressure to bear, that really all that is necessary is to have directors who will watch what is being done.

6505 Supposing all the balances were transferred to a bank of this kind, do you think that in normal times it would set free much money which is now locked up?—I think so. I think that a large portion of the balances in the treasuries would be available, especially if, later on, they were able, as I surmise they would be able, to increase the circulation of notes. It would be then a very much simpler matter to bring all the funds as they are collected in the sub-treasuries, to the headquarters immediately by note remittances.

6506 This bank would combine in one reserve the banking and the currency reserves of India now divided between the Presidency banks and the Government?—Yes, banking, Government reserves, and treasury reserves.

6507 It would take over, as I understand, the whole of what you might call the banking business now done by the India Office?—Yes.

6508 The sale of drafts on India?—Yes.

6509 And the lending out of balances in the city of London, if necessary?—Yes.

6510 Would it also undertake the business of keeping exchange steady?—It could only do so as the agent for Government. The Gold Standard Reserve fund would remain a Government Fund, and the Government would still have the profits on the minting of silver, and they would have to bear the cost of maintaining the exchange.

6511 The responsibility for the management of the Gold Standard Reserve would still necessarily remain with the Government of India?—It would necessarily remain with the Government of India.

6512 And it would only be through the use by Government of that reserve that the exchange could be maintained?—Yes.

6513 Do you think that the Government could safely leave such very large balances with a bank of the character that you have described?—If it were a bank with roughly a capital of 10 millions as was suggested, the comparison would then be as I have shown in my statement, in the case of the Bank of England the percentage of capital to liabilities is 18.6 per cent., as compared with the Bank of France 8 per cent., the German Imperial Bank 7 per cent., and the suggested Bank of

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India 14 per cent, that is to say 14 per cent against the Bank of England which is 18 per cent. That is the largest, it is much higher than the others. If you take the proportion of specie reserve to liabilities the suggested bank would have 53 per cent as against the Bank of France, which is the largest, 60 per cent.

6514 Of the 10 millions pounds which you are allotting to the bank four millions would in effect be the Government's own money?—Temporarily, until they realised.

6515 Until they disposed of the shares?—Yes.

6516 Do you not think that, with the responsibility which you would leave to that bank for large Government balances, and above all for the note issue, it might be necessary to insist that the shares should have an uncalled liability. I understand that at present the Presidency banks are fully paid up?—The shares of the Presidency banks are fully paid. I think from one point of view it might be desirable, but it might put difficulties in the way of the scheme.

6517 I quite understand that?—I mean because so many of the shareholders are retired officials with pensions, and they would not like to saddle themselves with a liability of that description.

6518 Supposing that it were held that there must be uncalled capital in order to provide a sufficient guarantee of security, do you think that the objection to that would be so strong as practically to make it impossible for the Presidency banks to come into the scheme?—It might wreck the scheme. It is not possible to say definitely. It would be a pity I think to run the risk.

6519 Great importance has been attached by some witnesses to the present local management of the banks. If I may refer to a particular witness, here is what one witness says: "Each of the three Presidency banks has evolved a practice adapted to its own environment and their absorption by a State bank would in a large measure involve the sacrifice of the advantages to trade which this specialisation secures", and he goes on to say that he thinks it of great importance that there should be local management in order that the policy of the banks may be directed to meet the local requirements\*. You do not think that the necessary centralisation in creating a State bank would interfere with the banks' power to meet the different needs of the different localities?—I think not with local boards given sufficient powers.

6520 You would have to give considerable powers to the local boards?—Yes, you would, and certain safeguards, so that the resources of one Presidency would be available for that Presidency. It would all be a matter of the general arrangements, and I see no reason to anticipate that there will be any undue preference given to one centre over another.

6521 Did you contemplate having representatives of the Government on the local boards as well as on the central board?—Yes, I think so.

6522 I am not quite clear what position this bank would hold *vis à vis* of the exchange banks. Would it do general exchange business?—My idea would be that it would confine itself to doing exchange business for the exchange banks, buying and selling on London or on India practically for the exchange banks, i.e. discounting exchange bank bills in India, and selling on India in London to the exchange banks only. I realise that the exchange banks have done very good work in India and that it would not be right in any way to hamper them in their legitimate business. They have got vested interests which should be respected.

6523 Would you propose that the bank should have power to borrow in London?—Undoubtedly.

6524 I presume that would be objected to by the exchange banks?—I do not think that the exchange banks would object to our borrowing in London providing that there were safeguards with regard to exchange business. Their objections previously have always been that they thought it was the thin end of the wedge of getting into exchange business, they are frightened that we would borrow in London and then

in order to remit the money we have borrowed in London, go out into the market against them and buy bills in London on India, and *vice versa*, that to pay off the loan we should buy bills in India against them, and remit to London to pay off, and that we should keep the ball rolling and that we should borrow a great deal more than we wanted in order to enable us to carry out the operation.

6525 Your remedy for that is that you should buy or sell only through the exchange banks?—Only through the exchange banks. It really comes to this, that we are simply doing what Government are doing with regard to Council bills now and selling on London. The only addition to that that would be probable would be the possibility of re-discounting the sterling bills for the exchange banks in India at a time when discount rates were high in London and money was particularly cheap in India.

6526 If such a bank were established would you propose that the Government of India should issue fresh rupees when asked by them?—I should think that the Government of India would be guided largely by the advice of the central bank as to when it was necessary to coin fresh rupees.

6527 One further question, and I think I have done. Supposing that it were decided that there should be no such central bank, do you desire to recommend any alteration in the conditions which now govern the Presidency banks?—I think that the whole Bank Act should be amended, and especially that the banks should have access to London for borrowing purposes.

6528 That is what I had in mind, you think that they should be enabled to borrow in London?—Yes.

6529 But not to deal in exchange?—But not to deal in exchange, I would exclude dealing in exchange. They should borrow in London and remit through Council bills, and when they have to pay back the money they must remit through the exchange banks or by Government drafts.

6530 (Sir Robert Chalmers) In your experience is there any movement among the Presidency banks themselves towards amalgamation?—I cannot say that there has been a movement among them. I have personally discussed the matter with the Bank of Bengal but it was at very short notice, it was only when this Commission was appointed and I was asked to attend as a witness that I went up to Calcutta just for a short time.

6531 You are not aware of any movement among the Presidency banks?—No.

6532 There is nothing in the way of their own interest as trading concerns which has promoted such a movement so far as you know up to the present time?—Up to the present time there has been no movement.

6533 Outside the Presidency banks themselves is there in your observation any organic movement among the public to impel a union or confederation?—No, there has been nothing of the kind so far as I know.

6534 So that it is not a popular movement either in or outside the Presidency banks?—Not that I am aware of. I have put the thing forward because in my opinion it is a very desirable move and a step in the right direction, and it would help on India generally.

6535 Assuming that there were a State bank on the lines which you have indicated to the Commission your position is that the responsibility should to a very large extent be left with the Government they would be directors of the central institution and on the local boards and should have a power of veto I think you said in practice?—In practice they would.

6536 And they would be so far the biggest customer that they would be able to bring very great pressure to bear?—They would be able to bring very great pressure to bear, yes.

6537 Leading possibly if they pressed it far enough, to the upheaval and destruction of the institution?—Yes, but that is unthinkable, as they are so much interested themselves.

6538 So far as the responsibility is ultimately left with the Government, would the advantage from a State bank mainly be to the public through the bank

\* See Qu 3966 *supra*

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in the way of getting money available more readily for trading requirements?—I think so

6539 That is really the bedrock of your proposition?—Yes

6540 You want to get money available when trade wants it?—I want to get money for trade purposes, and the general development of the country, railways, and so forth—to economise the use of money

6541 Would not this advantage tend to be secured in another way, that is by lending out balances, or say a part of the fiduciary portion of the Paper Currency Reserve?—That would be a step in the right direction, but I do not think it would have the same effect

6542 Why should it not have the same effect? Suppose that under your State bank plan you get a crores of rupees available, if you got a crores of rupees available from the fiduciary portion of the Paper Currency Reserve, would not that be the same?—Unless the bank had the direct management it would mean long correspondence before the money was made available for trade, and the time would be passed when it was required

6543 You think there would be difficulties owing to creating machinery?—There would be difficulties in the machinery

6544 And it would come to this, that if the balances were so piled as to make the balances available, that would tend to meet your main object in connection with the State bank?—Quite so

6545 May I ask you a question or two about exchange? You say when exchange weakens and you cannot sell telegraphic transfers and Council bills at 1s 4½d. and 1s 4d. respectively, they should cease to be offered. That is the essential portion of your scheme so far as exchange is concerned?—To my mind it would strengthen exchange very much if that were done. When they are unsaleable at those rates it shows distinctly that there is no demand. It is easier to keep exchange up than to bring it up again when once it has dropped. The best way is to keep it steady

6546 You are not prepared to work exclusively therefore between gold import and gold export point?—No, I think that it is preferable to keep within narrower limits

6547 Are there any other countries which you can point to where exchange is not allowed to find its own level by the equation of supply and demand?—No, I do not think there is any other country

6548 Take France for instance. Let us assume that their specie points are 25 f 11 c and 25 f 33 c. p.—Yes

6549 They sell between those points, but you would make a difference in the case of India?—I would make a difference in the case of India

6550 You would stand out for a top price, you would not drop to the specie limit below?—No

6551 Suppose that theory of exchange were carried out in other countries, what would happen, it would tend, would it not, to stop exchange operation through banks? If a buyer stands out for the lowest price, and the seller for the highest price, you do not get any business done?—Yes, but through my scheme you are simply financing the bank, you are not financing the general public

6552 It has relation to the bank?—It has relation to the exchange banks only. The specie point between London and India is a much larger difference than that between London and France. There is plenty of room for the banks making their profits although you reduce the limits

6553 But that difference in amount does not affect the question of principle, does it? You are proposing to ignore at least one of the specie points, and to say that you will stand out for a top price. What I am asking you about is this. I would like to learn your reasons for departing from the practice which, I understand you agree, is the general practice of equating supply and demand?—In my opinion the closer you can bring the specie points the better

6554 Can you bring that closer?—No, you cannot bring the specie points closer, but by such an operation as this you make the transfer of funds from one market

to the other as cheap as possible. There is less risk in transferring funds freely from one centre to the other

6555 Would your system be cheaper than any other? Would not your system involve the shipment of gold to and from India?—No, practically there would be no gold shipment at all

6556 You think that, do you?—I do. It is with the object of saving gold from being shipped from here that I sell on India below specie point

6557 That is your view. You would not be prepared then to accept the doctrine that it would be the business of the Secretary of State to get his money across if and when it is available according to the terms of the day?—I think it is advisable that the rate should be such as will save gold from being withdrawn from London. My real object in keeping the rate below the specie point is to avoid the shipment of gold from London, because the withdrawal of gold from London reacts on the India export trade

6558 But you feel that your system is a more artificial one than the one usually in force?—Yes

6559 (Sir Ernest Cable) In talking about Government loans, you said that you thought that not much more money could be borrowed in India by Government than is now being borrowed?—I did

6560 You mean of course on the present terms and conditions?—On the present terms and conditions

6561 If the rate of interest were raised on a fixed term loan could not a great deal more be borrowed?—It is possible that larger loans could be floated if better terms were offered, but it would have the effect of depreciating the present securities

6562 You said just now with reference to a central bank that there was no popular movement in favour of a central bank in India, but in your experience of India do you find popular movements frequent and insistent, or are they somewhat rare and weak?—I think they are rare

6563 They are rare and weak, and so one has to move ahead of them?—Yes

6564 You said with regard to that simple operation of placing Government money at the disposal of the banks during the winter season, that there would be some delay, and, in Sir Robert Chalmer's phrase, that this would be creating in the machinery. It is one simple operation, but throughout the whole of your memorandum (Appendix XXIV, page 591), if you will glance through it from that point of view, I notice that you recommend most intricate banking operations should be performed in order to carry out your exchange policy and your lending policy and so on—banking operations which perhaps the Government could not carry out so well as a central bank. Is that your view?—That is my view. The central bank would carry them out more expeditiously, and would be in a position to know the pulse of the market, and to know what was required to meet the needs more quickly than a government possibly could do

6565 It has been said by some people on the subject of a central bank that the area over which this bank would extend its operations is too large to secure efficient management. Have you any views about that?—I do not think that that difficulty is insuperable. If we take the present sphere of the Bank of Bengal, it probably covers more than three-fourths of the area, leaving the other to the Bank of Madras and the Bank of Bombay, and with local boards I see no insuperable difficulty

6566 So you think that the amalgamated bank would simply proceed to extend those spheres of influence already marked out?—Yes

6567 Without much change?—Without much change

6568 You mentioned that Calcutta should be the head office. Have you any reasons to give for that?—Calcutta is the head office of the largest of the three banks, the capital of the Bank of Bengal is more than the combined capital of the other two banks, and I think that naturally on such an amalgamation the Bank of Bengal would be entitled to consider Calcutta as the head office.

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6569 Geographically there might be some difficulty?—Geographically Calcutta is more or less equidistant. If you take the distance from Calcutta to Delhi, Calcutta to Bombay, Calcutta to Madras, or Calcutta to Rangoon, it is more or less central.

6570 But if there were certain local jealousies which would militate against the immediate formation of this bank with a Calcutta head office, you would have no objection to having another centre for the head office?—No, if it was a case of elsewhere to save wrecking the scheme. I would raise no objection if it were Madras.

6571 The financial scheme which you suggested seemed to me to be open to the objection that we have had put before us by other witnesses of involving a very large capital, and if the Government were to come in as shareholders at the beginning, it would be necessary, I suppose, to capitalise the undertaking at the market price of the shares?—The new capital would have to be capitalised, of course.

6572 At the market price?—Yes.

6573 I might, perhaps, suggest an alternative scheme which is free from the objection of starting with a very large capital. Would it not be easy to make the ratio between capital and reserve the same in each of the Presidency banks? This is already more or less the case now, is it not?—They are more or less now. The reserve of the Bank of Bombay is slightly in excess of their capital, in Madras it is very close, and so is the Bank of Bengal.

6574 It could be done with more or less difficulty?—There would be very little difficulty in doing it.

6575 If they were brought up to the same ratio, then the shareholders of the central bank might receive share for share of their present holdings in the existing banks. That would be quite a fair distribution?—Yes.

6576 Then with regard to the new capital which, of course, is required, would you see any objection to this, namely, that the new capital—let us call it three crores of rupees for the sake of argument—should be offered to the existing shareholders *pro rata*, and that only 20 per cent of the new capital should be called up?—I see no objection to that proposal.

6577 That would create a very large reserve of uncalled capital, and would perhaps justify the Government in having the greatest confidence in the new bank?—I would suggest three crores with 25 per cent paid up.

6578 Let us say 20 per cent. This would give you all the capital you wanted, and you would also have a large amount of uncalled capital, which would, I think, help to induce the Government to hand over the whole of the balances?—I would have no objection to that. I have not set my heart on any special scheme at all, I am quite open to any suggestion.

6579 Do you think that this new central bank would have the effect of drawing out any money from the hoards?—In so far as it would increase the number of branches, it would probably bring out a small amount, but not very much.

6580 There are hoards of two classes in India, are there not, there are hoards by the princes and maharajahs?—Yes.

6581 Would not those be extracted?—Yes, I think probably we could get hold of more of those. Even now we have a fair amount.

6582 (Chairman) Why would the central bank get more of those than your existing Presidency banks do?—Because I think there would be more confidence. It would be recognised as being a very much bigger bank, and perhaps as being a Government institution.

6583 (Sir Robert Chalmers) That is so—because it would be a Government institution?—Yes, I think so, with the Government prestige.

6584 The Government prestige and Government responsibility?—It might be considered that there was Government responsibility.

6585 Given Government responsibility, that would tend to the purpose that Sir Ernest Cable has in view?—Even now the Presidency banks have more or less

that prestige. They are considered as Government banks.

6586 Then what is the added prestige if there is that feeling already about the Presidency banks?—As I say, to a certain extent, not among the less enlightened portion of the people—if you take the native states and native rajahs, they understand more clearly the true position.

6587 You put it practically on the direct responsibility of the Government being superadded?—Yes, and the stronger institution.

6588 (Sir Ernest Cable) Do you think this new State bank should as one of its usual functions lend out these balances to agriculturists, or I should say rather to co-operative credit societies?—I think it could within certain limits. Even now we in Madras indirectly finance, to a small extent, these co-operative societies. They have a central bank in Madras, and we discount their bills. The bills of the rural bank to the central bank we discount to a small extent.

6589 (Mr Keynes) I want to ask you a little more in detail about your proposal for making 1s 4d the lower limit for Council bills. In my own mind I am very doubtful which way the argument lies. I see that there are manifest advantages in reducing the fluctuations, because, as you said, it makes it much easier to transfer capital, but I want to put to you the argument on the other side and to know what you think of it. When exchange is weakening it is very important for the Secretary of State that people should not remit funds from India to England unless they absolutely have to do so. He wants the banks to bring back as little money as possible. If exchange is allowed to fall, within limits, that makes it less profitable for the banks and other persons to bring money home, and, therefore, reduces the amount which he need keep in reserve. I will put it in this way. If you were to fix exchange absolutely so that he would sell bills either way at 1s 4d, then enormous sums would be remitted backwards and forwards at the end of the busy season and at the beginning of the busy season?—Yes, probably.

6590 The Secretary of State would have to keep very much larger reserves than he does in order to be sure of being able to make remittances both ways at 1s 4d to whatever extent was required. Each one sixteenth fluctuation leads to a few persons who would otherwise remit not doing so, and a difference, for example, of one-thirty second in exchange is as much a protection as an alteration in the bank rate of 1½ per cent on three months' bills and 3 per cent on six weeks' bills?—Yes.

6591 All that being so, do you think that the Secretary of State would be much increasing his liabilities if he were to follow the policy which you have suggested?—I think not, because, assuming that he buys and sells at the same rate of 1s 4d, it would not affect the balance of trade. It would simply be this, that temporarily, if rates were suitable in India, and there were higher rates of interest, a large amount of money—capital—might be remitted from London which would give you gold here to start with and would then be brought back again. On the balance it makes no difference, whereas on allowing exchange to drop you will have a rush for remittances to get the money home for fear it will drop further. There may be a large number of sterling bills that are falling due very shortly, therefore they will be paid at once rather than run the risk of letting them run for another fortnight and then having to pay a lower rate of exchange, which costs them more.

6592 Let us take the case where it is fixed at 1s 4d both ways. I think it is evident that in the long run it would turn on the balance of trade, but within the limits of a given year would not the Secretary of State have not only the ordinary fluctuations in the balance of trade but also superimposed fluctuations due to the fact that money would be sent to India for part of the year and then taken back to England for another part?—Temporarily, when money was very easy in India, it might make big inroads



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and uncomfortable inroads on the gold portion of the currency

6593 Quite apart from the balance of trade, persons in India might wish to bring back to England for three months, say, 10 million pounds?—Yes

6594 I mean quite apart from the balance of trade?—Yes, you mean if money was very easy in India and could be profitably employed here?

6595 Yes, so that the Secretary of State would have to meet not only fluctuations in the balance of trade, but also any desire there might be on the part of people to remit money to England because temporarily it could be used here more profitably?—Yes

6596 Every one sixteenth fluctuation he permits must reduce that risk?—Yes, that is so. I do not think there is any great danger by reducing the difference. It is possible, that I admit. In theory you are quite correct.

6597 I come back to the actual figures, and suggest that it might be more serious. Suppose that as at the present moment the rate is 1s 3½d, when an exchange bank or any other person is wondering whether it is worth while to remit funds back to England for a bit, which they will have to take out again in the busy season, one of the important things they must take into account is the loss on exchange?—That is so.

6598 A rather small loss on exchange corresponds to a rather large fluctuation in the bank rate?—Yes

6599 Hence even a difference of one-sixteenth might make them remit back temporarily very much more than they do at present?

6600 (Chairman.) What do you say to that?—I am not quite certain of the point. The exchange banks, as a matter of fact, always cover their operations in practice. They do not keep a large amount out standing either one way or the other.

6601 (Mr. Keynes.) To make 8 per cent in India for six weeks and to remit back at a loss of one sixteenth of a penny to the rupee is the same thing as to make 5 per cent in London for six weeks?—Yes

6602 Therefore the inducement to remit which is brought about by a fluctuation of one sixteenth of a penny in exchange is the same as an inducement brought about by a fluctuation of 3 per cent. in the bank rate for six weeks' loans?—Yes, that is so.

6603 You will agree that that is a consideration of which the Secretary of State has to take account?—Yes, I agree.

6604 I am not putting this as conclusive?—I admit that, but my contention is that the usual and more common operation would be to remit the capital from London to India in the first instance, and that the return of capital from India, where the reserve would necessarily be strengthened, would be uncommon. It would simply bring the same funds back again.

6605 There is a certain amount of money which is kept in India all the year round?—Yes

6606 What I am suggesting is that there will be a much greater tendency to bring that back in the slack season?—Yes, there might be. The money that they kept in India during the slack season is largely Indian money, Indian deposits, and it might be to their advantage, if you lessened the difference, to bring it home temporarily.

6607 I think it quite clear that the Secretary of State could not safely fix it both ways at 1s 4d?—No, quite so.

6608 It is simply a question at what point he sufficiently safeguards himself?—Yes

6609 I want your opinion upon that. Do you think he has sufficiently safeguarded himself if he allows a fluctuation between 1s 4d. and 1s 4½d?—I think that is fair.

6610 You think that the present fluctuation is more than he really requires?—Yes

6611 You have expressed the opinion, I think, that Government loans to the extent of three or four crores in the busy season would ease the situation. Other witnesses have put the figure even so low as two or three crores. In making that estimate, are you assuming that all the funds now available would still be available?—Yes, I am assuming that.

6612 That it would be the net addition?—Yes

6613 If it had the effect of reducing the bank rate from 8 per cent to 6 per cent, do you think all the funds now available would be forthcoming?—I think so, I do not think it would affect that. My idea is that the deposits would not fall off because the rate had gone down.

6614 That is one point. I was not so much thinking of that as of the transactions between London and India?—I do not think that those would be affected materially either.

6615 When an exchange bank is buying Council bills in order to obtain funds in India with which to discount sterling bills, I suppose they are much influenced by the rate at which they can discount them?—Yes, the London rate, not the Indian rate.

6616 But that must be connected with the Indian rate, because the rate of discount of sterling bills in India would not be altogether independent of the rate payable for other loans?—So far as I know the exchange banks base their rate entirely on the London rate, plus the rate at which they can buy their Councils. It is not influenced much by the local rate.

6617 I mean the rate at which people can borrow money by discounting their sterling bills cannot be altogether independent of the rate at which they pay for other kinds of accommodation?—I think it is. So far as I am aware the exchange banks base their rates entirely on the London rate for their sterling bills.

6618 It does not make the smallest difference to the exchange banks in any of their transactions whether the bank rate in India is 6 or 8 per cent then?—It makes a difference in their local business, but not in their exchange business.

6619 Are those two in absolutely watertight compartments?—They are more or less.

6620 You say the exchange banks are not influenced in the least in bringing out money by the fact that there is an 8 per cent bank rate in India?—I do not think so. Their local business is largely worked upon their local resources, and their exchange business upon the basis of the London rate. But I do not pretend to speak authoritatively upon this because I am not an exchange banker.

6621 I want your opinion on that point. You think that with a bank rate of 6 per cent the amount of money that is forthcoming would be practically the same as at 8 per cent?—I think so. I do not think it would affect the amount of money that the exchange banks would bring out.

6622 I come to the other side. Do you think that the demands for loans at 6 per cent are not much greater than at 8 per cent?—Yes, I think so, decidedly.

6623 You think the excess is only about three or four crores?—I think three or four crores, as I said before, would ease the market very considerably. It would be a very great help. I would not like to state definitely that no more could be utilised.

6624 Let us go a little more deeply into the causes of a high bank rate in India. You think that a bank rate of 8 per cent rather than 6 per cent is simply caused by there being three or four crores less loanable capital than there actually is?—I think three or four crores would reduce the rate from 8 to 6.

6625 (Chairman.) Three or four crores more?—Yes,

6626 (Mr. Keynes.) I do not want to press all this unduly, but let me put it to you in another way. I should have said that the bank rate in India was fixed in this way, you must either leave your money idle during the slack season, earning at best a very low percentage, or you must remit it back to England. In the first place, what you must consider is the average rate of interest throughout the year, and there is no evidence that that is higher in India than in other countries, or you must remit back and then you must make the loss on exchange which we have been talking about?—Yes.

6627 Must not the 8 per cent rate in a busy season exist in order to counteract either the low rate in the slack season or else the loss of exchange?—I see your point, but in my view, I think cheaper money in the height of the season would enable India to finance her trade for longer periods.

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6628 My suggestion is that a high bank rate is due to much deeper causes than to there being three or four crores more or less of loanable capital in the country, and therefore it is unlikely that it will be lowered by there being three or four crores more available. I mean that is a very small amount, as you will agree, in comparison with the extra sums which have become available in the last 10 years?—That is so.

6629 Each year you get an immense addition?—Yes.

6630 But still you find your bank rate going to 7 or 8 per cent?—Yes, it goes to 7 or 8 per cent, but that is largely due to the withdrawal of currency at the time when it is mostly required. There is always a big contraction of currency from January to March, just at the time when an expansion is necessary for the financing of trade.

6631 Do you think that the withdrawal of which you speak is of the same magnitude as the relief which you would get by three or four crores more?—Yes.

6632 You do really think that this high bank rate is due to this somewhat casual circumstance rather than to deeper underlying causes?—I think so. It appears to me to be so.

6633 I want to come on now to the general question of a State bank. Can you tell me a little about the relation of the other banks to the Presidency banks? Do you keep an important amount of deposits belonging to exchange banks?—Exchange banks keep their local working balance with Presidency banks.

6634 But is it important?—No, not very important. It is always what Presidency banks look on as a very dangerous balance, you never know what it will be. One day they will have a big balance and the next day they will have nothing. Occasionally they borrow.

6635 In the case of the new Indian joint stock banks, do they keep much with you?—There is only one very small one in Madras, and they keep nothing.

6636 Have you any knowledge of these Indian joint stock banks?—No personal knowledge. Bombay is the centre for that.

6637 You suggest that in the event of the currency notes being taken over by the State bank some part of the fiduciary issue must consist of sterling bills. Do you deliberately intend to exclude hundis?—No. I simply mention that as a particular form of security which I thought was a very good one for temporary security for a note issue.

6638 You think that the best class of local Indian bills would be quite suitable for the purpose?—I think it would be quite suitable.

6639 If, as you suggested, it was part of the general banking business to discount against the note issue, of course Indian bills would form a large part of it?—Yes, such a bank would have the power of discounting to the larger local banks, and their bills would go into the funds. It would be the best security available. In fact it would be the general assets of the bank, similar to the Bank of France, where there are no particular assets earmarked for the note issue.

6640 You argue that the paper currency would be much encouraged if there were currency agencies all over India. I suppose that in the event of there being a State bank the branches of the State bank would be those currency agencies?—Yes.

6641 That would be a much more economical way of managing them than to have separate agencies?—Yes.

6642 That is very much part and parcel of the State bank scheme?—Yes, but it would be quite possible for the Government, even without a State bank, to have currency agencies. Where they have got large treasury centres they can have currency agencies.

6643 You are proposing an arrangement almost exactly like that of the Reichsbank, which has agencies all over Germany, which are instructed to cash notes wherever they can, but are not under a legal liability to do so?—Yes, that is what I mean—as a matter of practice always to encash them, but not to have the legal liability.

6644 We have been told that there is not at present very much economy in setting up branches of the Presidency banks in place of treasuries. Is that to any extent due to the fact that the currency chest still remains outside the province of the bank in those places?—No, the currency chest is held by the bank, but the funds in the currency chest, of course, are not available, they are a special reserve for the note issue. What happens is this: revenue is drawn in during the week, and goes to the credit of the Government account. On a certain day in the week the whole balance, that is everything except a small working balance, which varies from 75,000 rupees to a lakh or two according to the size of the Treasury, is transferred into the currency chest. The bank then simply becomes a collecting agent for Government, and once a week the surplus is transferred to the currency chest, and that becomes the security for the note issue.

6645 When the Government reduce their three lakhs to one lakh, does that mean that they have absolutely no more than one lakh in the place, or that they have transferred the two lakhs into the currency chest?—It means that they have transferred it into the currency chest. They might have 50 or 60 lakhs in the currency chest.

6646 So that the rupees are still in that place?—They are still in that place.

6647 What the Government does is to take them out of the control of the bank?—Yes.

6648 What advantage to the Government is that?—As far as I know it is no advantage at all. They hold large notes in the reserve treasuries against them. Of course, in the height of the season their reserve treasury is what they look to to meet their large sales of Council bills. It provides for the sale of Council bills some considerable time before they are actually sold, by the withdrawal of cash in actual circulation.

6649 (Mr Gillan) In fact it is the Government method of holding their balances?—Yes.

6650 (Mr Keynes) I do not quite understand whether when they transfer the two lakhs to the local currency chest they keep it in there in rupees or only in notes?—It might be rupees and it might be in notes. In the chest you will have a large balance of notes and a large balance in rupees. The notes, as soon as they are put in there, I presume, are taken off the note circulation, and the rupees then form a portion of the reserve.

6651 There are a great many rupees there which the Government can use for replenishing its balances, but which the bank cannot use?—Yes, which the bank cannot use.

6652 So that the lack of economy in the present system merely results from the separation between the banking and the note issue part?—Yes, it results from the separation.

6653 If they were combined the Government would have no motive whatever for reducing the three lakhs to one lakh?—They would have no motive, that is so, provided also that their treasury balances were with the bank. Their reserve balances are kept with the Accountants General.

6654 Of course, when the reserve treasury balances were falling very low they might have to withdraw rupees, but except in that case it would be no inconvenience to them?—No, it would be no inconvenience. It is a matter of having sufficient confidence, in leaving large balances with the banks, that the money will be forthcoming at a time when Government require it. I think that is really the sole explanation.

6655 Except in cases when the balances in the reserve treasuries are running low this practice of the Government, which makes it unprofitable for the bank to have branches, is of no advantage to them whatever?—No, it is no advantage.

6656 I think I understand clearly the great advantages which, as you maintain, would accrue from the existence of a State bank, but I would like to question you as to how far you think those advantages might possibly be obtained without a State bank. First of all, with regard to the paper currency, I understand that you think that the bank could use methods of popularising it which absolutely could not be open to the Govern-

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[Continued

ment?—I think that they would have means I would not go so far as to say that the Government could not do the same if they would, but it would be more difficult for them than it would for the bank. We have direct dealings with the trading public and the Government have not, and we can induce our constituents to take notes by offering them more favourable rates than they could obtain by taking silver, which would cost us a lot of money to transfer.

6657 You suggested that against the paper currency a certain amount could be held in the form of bills?—Yes.

6658 Do you think that if there were no State bank the Government could possibly enter into the business of buying bills?—No, I should think it probably could not.

6659 So that part of your proposal is really contingent upon the State bank being established?—Yes, that is so.

6660 Would it be possible for the Government to lend to Presidency banks against the security of bills?—They might do it in that way.

6661 But you think that the use of the balances for discounting bills is essentially a banking operation?—I think it is. It could be carried out better by the bank, and more promptly.

6662 Then there is the point about the Government balances, which for various reasons which have been explained to us, are very big in India. Do you think that Government could possibly lend anything like all those balances to the existing Presidency banks?—No, I do not think they could use them—not the balances that they have at present of something like 20 crores. I do not think that would be a business proposition at present under present circumstances.

6663 So that your proposal for putting Government money at the disposal of trade is contingent on the establishment of a State bank?—Yes—the whole of them balances.

6664 There might be some increase even in the absence of a State bank?—I think under existing conditions very much more of the balance could be put at the disposal of the Presidency banks temporarily during the busy season.

6665 About how much more, do you think?—Of course, it would depend upon the season. It seems to me they could meet the requirements of the Presidency banks out of their funds which are doing nothing.

6666 Could they, do you think, lend enough of their balances to the Presidency banks really to meet your criticism, or could they only lend enough to meet your criticism if there were a State bank established?—I think that under existing circumstances they could lend us enough.

6667 So that that part of your proposal is not absolutely contingent on the establishment of a State bank?—It is not absolutely contingent on that.

6668 It would be more efficient though if there were one?—It would be more efficient if there were one.

6669 I come back to another point about which I think you have not said anything, or, at any rate, have not said much, in your memorandum, and that is the banking resources of the country. Do you think that there will be any substantial advantage in having the banking resources amalgamated, from the point of view of security?—Do you mean of the three Presidency banks?

6670 Yes, having their cash resources amalgamated?—It certainly would strengthen the position to a certain extent, in so far as the demand varies in point of time. In Bengal the demand arises earlier than it does in Madras. Our season continues longer. Therefore the amalgamation of banks in that way would strengthen the position. Do you mean whether it would make a stronger bank?

6671 I was thinking rather of the case of a crisis?—Yes, I think decidedly in the case of a crisis, if there were an amalgamation of the three banks the credit of the three banks would be stronger than the credit of an individual bank. A bank such as I have outlined would be able to command credit in London.

6672 Do you think that the present position is so safe that these are rather minor considerations, or do you think that the present position is not as good as it might be in the matter of meeting a crisis?—I think there are dangers about the present position.

6673 You would not feel perfectly happy in a severe banking crisis in India?—Certainly most unhappy. Unfortunately I went through a very serious crisis in Madras, and there was no outlet, absolutely none. I refer to the failure of Abbutnot & Co.

6674 What do you mean by no outlet?—There was no outlet for obtaining resources. We were tied up in the Presidency practically. We have no recourse to London, and no possibility of raising money elsewhere, we depend upon our own cash balance.

6675 Could you not even draft in money from Bengal?—If Bengal happened to be easy at the time you could borrow money up to a certain point, but then you have your Bank Act, which comes in and provides that you can only borrow against certain securities. The Bank Act precludes a Presidency bank from lending to another Presidency bank without specified security.

6676 I think in answer to a question earlier to day you discriminated between the effects of the sale of Council bills and of lending money in India in this way, that if Government released funds by the sale of Council bills that helps shippers rather than producers?—The Council bills are not applied for until the produce has been brought down for shipment.

6677 But if the Government money were available in numerous branches all over the country, you think that would strengthen the financial position of producers as against that of shippers?—I think so, they would be enabled to get financed more cheaply, and would be able to hold their produce if the market were unfavourable.

6678 That is to say, the money market in India is a very imperfect one?—Yes.

6679 Funds which are available to one class of borrower are not at all available to another class?—That is so. The producer has got to pay his kist, that is, the Government revenue, at a certain time, and, in order to pay that, he must either be able to sell his produce or to borrow on it. If the rates are high it practically means that the money is not available to lend, and, therefore, he has to sell, he sells to the exporting merchant, and the exporting merchant sells his bills to the exchange bank, and they obtain Council bills.

6680 I have only one more question to ask. Assuming that no State or central bank is established, you have said you would like an amendment of the Presidency Bank Act, by means of which they could have access to London?—Yes.

6681 Do you also ask for any relaxation in the matter of the rules regulating the terms upon which they can lend in India?—Yes, I should like those altered also.

6682 What sort of alteration would you wish in them?—The terms as to the security upon which one may lend are very stringent. You cannot lend on credit alone. You can discount a bill which has two names, but, as I say, even to the Bank of England I could not lend a lakh of rupees unless they put down certain securities which are specified in the Act. I say that the Bank of Bengal cannot lend to the Bank of Madras any money except if certain securities are put down. They can re-discount bills up to certain small limits, which would be of no use in the matter of helping the Presidency—up to five or six lakhs is about their limit.

6683 (Mr. Gladstone) In your memorandum you propose that in the event of a central bank being established the head office should be in Calcutta, and you gave as a reason that the Bank of Bengal has the largest capital. It is also the fact that the territory of that bank has also much the largest population, and much the largest trade?—Yes.

6684 Sir Edward Law, in a minute which has been given to the Commission, dated in 1901, referred to the difficulty of securing a thoroughly suitable board of

\* See Appendix XV., pp. 437-8, para. 53.

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[Continued

directors, having the necessary leisure to devote to the business of a State bank. Do you agree in that?—I do not think that difficulty is insuperable.

6685 It is the fact as it not, that the business of Presidency banks is very largely controlled, and necessarily controlled by the managers and deputy managers, because the boards of directors are not men of leisure, they are all occupied with their own business, and are quite unable to give much time to the business of the banks?—That is so.

6686 Probably the managers of the Presidency banks exercise quite as much control as the managers of the exchange banks in India?—I think so, quite.

6687 And the exchange banks have no boards in India?—They have no boards in India.

6688 Do you not think that a much stronger board of directors would be obtainable in London, supposing instead of having the head office in Calcutta you had the head office in London, with the local boards as you have suggested, in the Presidency towns?—A London board would lack the local knowledge, which is a very great thing.

6689 Could not a board be got together in London consisting of business men with full experience, of good financial position, and the necessary leisure to admit of their giving time as in the case of the Bank of England?—That would be possible, but against the London board I would suggest that the Indian board's interests would be more for the benefit of India than those of the London board. They would look to India's interest, more than the London board are likely to do.

6690 Failing a satisfactory directorate in India, would you agree to a London board?—I have made my objections, although as I say I am not wedded to any particular scheme, but just the principle.

6691 But you have experience of your directorate and as I was a director myself I feel able to put the question? I think it is generally agreed that the directors of Presidency banks really have not got the time?—They cannot devote their whole time to the business of the bank and they cannot possibly have a thorough grip of the details.

6692 It would be almost impossible to get a satisfactory directorate of a large central bank so far as unofficial members are concerned in India?—I do not think you could get anything better in London. I do not think a board constituted in London could possibly have any better knowledge, or be able to control the real business of the bank, although they devoted their whole time to it. They would lack the local knowledge, which is a most important thing.

6693 I suggest that the central bank if established in London should be directed in the main by men of Indian experience?—Yes.

6694 It is a fact, is it not, that the bulk of the successful merchants return to England somewhere about forty?—Yes.

6695 In the prime of life?—Yes, but they very quickly lose touch, conditions change so rapidly in India.

6696 Many of them are in their own businesses as well in England?—Yes.

6697 They do not lose touch with India?—No, not to such an extent.

6698 Do you think that such an arrangement would meet with general approval in India supposing it was agreed that a satisfactory directorate could not be obtained in India?—I do not think it would be popular from an Indian point of view.

The witness withdrew.

At the India Office, Whitehall, S W.

### FIFTEENTH DAY.

Friday, 18th July, 1913.

#### PRESENT

THE RIGHT HON AUSTEN CHAMBERLAIN, M P (*Chairman*)

Lord FABER  
Lord KILBRACKEN, G C B  
Sir ROBERT CHALMERS, K C B  
Sir ERNEST CABLE  
Sir SHAPURJI BURJORJI BROACHA

Sir JAMES BEGGIE  
Mr ROBERT WOODBURN GILLAN, CSI  
Mr HENRY NEVILLE GLADSTONE  
Mr JOHN MAYNARD KEYNES  
Mr BASIL P BLACKETT (*Secretary*)

Mr WILLIAM BERNARD HUNTER recalled and further examined

6699 (*Sir Shapurji Broacha*) You do not find any fault in the selling of Council Bills by the Secretary of State, do you?—No, I have found no fault with the sale, but I consider that it is advisable to sell below the gold point, that is the only thing—and I would not go below 1s 4d.

6700 With the manner of his doing it you do not find any fault?—No, I have no fault to find.

6701 Nor do you find any fault with the lending of money in this country?—No I have found no fault with that.

6702 Nor do you complain of the rapidity of the increase of the note circulation, which has increased about 400 per cent since 1890?—I advocate an increase of the circulation of currency notes, as far as possible.

6703 Up to now there has been a rapid increase. There has been an increase of 400 per cent since 1890,

of 100 per cent since 1903, and of 50 per cent since 1905. You say that the chief cause of the great fluctuation is the inelasticity of the currency accentuated by the withdrawal from the active currency by Government of vast sums just at the season of the year when the movement of the crops demands an increase, and that in this season, with an 8 per cent bank rate ruling in three presidencies, no less than 20 crores, or 13½ millions, were so withheld from the market. Indian currency notes are issued on the same lines as notes of the Bank of England, are they not?—That is so.

6704 Against fiduciary security?—It is a fixed fiduciary issue.

6705 Suppose the Government of India had thrown into the market this year about 5 crores to lend in the busy season, I do not think you would have seen

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[Continued.]

8 per cent, would you?—You would not have seen 8 per cent

6706 That is the only reason, I think, which you gave for a State Bank, so far as I could follow it. If the seasonal demand for money, and the seasonal ruling of a high bank rate is the only cause, then, of course, we ought to ask Government to lend money out like other countries?—If that were done it would relieve the situation, but it would not meet everything

6707 Why have a great superstructure for such a small point as the reduction of the bank rate during the busy season—a bank rate that rules for five months, I think?—As a rule

6708 Do you know that before 1867 there were three State Banks in maturity?—How do you mean?

6709 The Government had shares in three banks?—Yes, the Government had shares in banks

6710 And the Government had directors on the board?—Yes, that was so

6711 The old Bank of Bombay had two millions of capital, but it was put into liquidation?—That is so

6712 And although the distribution to the Bank of Bombay shareholders came to 117 rupees only, the Bank of Bengal offered the shareholders 500 rupees to induce them to amalgamate with the Bank of Bengal, and an amalgamation resolution was carried?—That is so

6713 But the Bombay mercantile people created a great opposition to that, and would not have an amalgamation, and they carried deputation after deputation to the Bombay Government, is that not so?—I am afraid that I am not up in this ancient history

6714 I am taking you into the history of the State Bank. You will find that that resolution was rescinded, notwithstanding the fact that the shareholders would have got four times the money they ultimately got, the Bombay people would not have the amalgamation, and they only got 117 rupees while the Bank of Bengal offered 500 rupees. That was due to provincial jealousy, and, as you know, there is a great provincial jealousy between Bombay and Calcutta?—Yes, I am aware of that

6715 Do you know that, in consequence of the fact that there were Government directors on the Board, the shareholders petitioned to this country to have their money given back to them by the Government, because they alleged the Government was responsible?—No, I do not know that

6716 There was a motion brought forward in the House of Commons by Mr. Mill for the restitution of the money on the grounds that Government directors were on the Board, that it was done with their sanction, and that the Government were really responsible to the shareholders. That motion was lost by a very small majority. I suppose you want Government directors on the board of your proposed State Bank?—No, I have not said that I want them. I presume that as Government would have a big stake they would want representation on the board, but I do not think, so far as the Bank is concerned, it would be essential. It is merely a matter for the Government having such a big stake, to say what control they require

6717 The Government has been for so many years declining to lend any money for trade do you think therefore, they will open up all their treasures to a State Bank without some sort of guarantee or scrutiny or supervision?—No, I certainly think they would require some scrutiny or supervision, but that might be met by their having their own auditors

6718 What would the Government directors know about commercial credits?—They would only have a general knowledge of the business which the bank was conducting, and that it was being well managed and undue risks were not being taken

6719 If a State Bank were established and Government directors were on the Board, then, if anything were to go wrong, would not the Government directors be again held responsible for the losses, just as the Bank of Bombay shareholders tried years ago to make them responsible for losses and only failed by a narrow majority in the House of Commons?—They would be equally responsible with the other directors, un-

doubtedly, but beyond that they would carry no further responsibility

6720 When the Government directors come on the board, which representative of the State Department would you like to have on the Board, the Comptroller-General?—Someone from the Finance Department, speaking generally

6721 When a man in the State service becomes Comptroller General, he remains only a short period in his office, because he has reached the stage when only something like 5 or 7 years have to elapse before his period of service expires?—That is so; but then the Government directors, assuming they were appointed, would not be there really to take a very active part in the direction of the Bank. They would be there more to watch the interests of the Government

6722 So it would be a responsibility without control?—Without any detailed control

6723 How would you form the State Bank—by amalgamation?—By the amalgamation of the three Presidency banks and the issue of fresh capital

6724 If the Bank of Bengal owns two thirds of the share capital as compared with the Bank of Bombay and the Bank of Madras, I suppose the directorate selected would be the Bengal directorate?—There would be local boards. But these are details, and I have not prepared a detailed scheme for your consideration

6725 A State Bank is very nice, and all that, it is a very grand thing, but let us go to the details, and let see how we can reconcile the details in India. The details of such things can be settled in France by herself or in England by herself, but let us see what is required for India. I would like to have from you your idea of the composition of the board of directors? Of course, the board of directors would be appointed by the shareholders, and the Bank of Bengal shareholders having, therefore, the majority could choose directors from among themselves, unless you want to make some provision for Bombay directors, or anything like that?—You would naturally have a provision that the local boards should consist of local men

6726 I understand about the local boards, but I am talking just now of the Board of the Central Bank?—It would be possible to have a scheme whereby through the local boards the shareholders of the Bank of Bombay and the Bank of Madras are represented on the Central Board

6727 I suppose any local board would be formed by the direction of the Central Board?—Not necessarily.

6728 Is it not the shareholders' property, unless the Government have a State Bank of their own?—Yes, it is, and the local boards would be drawn solely from representatives of the locality

6729 I contend that the majority of the shareholders would be Bengal shareholders, that is, if the shareholders are given shares *pro rata* according to the present capital, and, therefore, Bengal or Calcutta will be able to appoint the full board by election?—There is no reason why representatives should not come on the Central Board from the other localities. There may be a provision that one member should come from Bombay, one member from Madras, one member from Rangoon, one member from Cawnpore, and so on, so that all the principal districts could be represented on the Central Board.

6730 Is there a bank or any other institution that has this method of selecting its directors? Is it not quite a new method?—Even assuming there is no other instance, that is no reason why a precedent should not be created.

6731 You really have to revolutionize the whole company system in order to do it?—It requires a special constitution undoubtedly

6732 The shareholders would have no control over it in the selection of their own directors?—Within certain limits they would have control.

6733 You do not tell us how the directorate would be formed, or who will appoint the Committee to work it at Madras, or the committee to work it at Bombay, or the committee to work it at Karachi, or the committee to work it at Lahore. Who would appoint those committees?—As I say, I have not

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[Continued.]

worked out a detailed scheme, and I have only suggested the principle that at this stage it is worthy of consideration whether the formation of a Central Bank is not desirable

6734 We stumble at the very beginning in the formation of the board. How will the Government share in the election of the board?—They will probably have the right to nominate certain of the directors

6735 To nominate their own directors?—Yes

6736 That is to say, to nominate their own servants?—Yes, if they decide that they desire to be represented on the directorate. As I say, it is not essential that they should be, it is only on account of the large stake that they would have in the Bank that they might wish to have the control. They might, as I suggest, do so by having their own special audit

6737 Probably the Government would put the work in the hands of their servants, the Comptroller General, for instance because if the Government appoint anyone at all it must be someone from the Finance Department, which is the only Department with any experience of banking and bankers?—Probably they would select from people in the Finance Department

6738 Suppose they waived the appointment of Directors, do you think they would give up all the treasuries to a State Bank over which they would have no control?—I cannot say what the Government will do

6739 We will suppose that a board is appointed and that the majority, in the common way, until the laws relating to joint stock companies are changed, is composed of Bengalis, then I suppose the directors will appoint a committee at Madras to work that portion of the State Bank?—Presumably there will be a local board in Bombay and a local board in Madras

6740 Will they have power to lend to people known to them in Bombay without any supervision or central control?—It will be necessary for the local boards to have very large powers, but undoubtedly the Central Board must retain the power of veto

6741 Do you not think it would be a very awkward thing to veto Bombay credits? Do you think Bombay would submit to that?—I do not see that there is anything very outrageous in the suggestion. If you take the large joint stock banks in England, they have local boards in various centres, and I do not speak with authority, but I presume that those local boards are subject to the veto of the Central Board

6742 They are subject to central supervision?—Yes

6743 How many European directors have you on your Bank?—Seven

6744 And how many native directors?—There are none

6745 Perhaps you know that the same would be the case in a Central Bank. How many directors are there now who have been on the board for five years, say? Or I will put it in this way. Of the seven European directors that you have had in the Bank of Madras during the last five years, how many have left on furlough or have come back to England and left India altogether?—The Directors are constantly changing

6746 I suppose the European directors who come on the board are generally the heads of their firms?—Generally they are

6747 So they come on the board at about the time when they take their furlough every year or every second year?—No, not so often as that, as a general rule. It is usually every third year

6748 How often do you take your furlough yourself?—Perhaps once in five years

6749 It is not like the Bank of France and the Bank of England, you do not continue with the same Directors?—That is so. But when I personally take my furlough, my second in command knows the business just as well as I do, and he knows exactly my views. So when the second partner in a firm succeeds his senior partner in the directorate, he has often been on the board before, and he is not coming into something entirely new

6750 It will come to this, that the Governor, that is, the Secretary and Treasurer of the State Bank, would alone be occupied in dispensing the native credits, unless you employed some great baboo who would dispense those credits?—I do not think we should be quite so out of touch as you suppose. Naturally a board must to a very large extent be influenced by the head of the Executive who has all the details before him

6751 But really the entire control of the whole of India would be in the hands of the Governor of the Bank?—He would certainly have a large influence, but I would not go so far as to say he would have the entire control. Each bank manager would have very great powers

6752 The Government's nominee on the Board could not have any control over the credits if the Bank is to support the trade of the country?—Naturally, Government directors could not interfere in such small details as what amount of credit any individual person was to receive. They would have to be guided by the executive officers

6753 The Governor will be the sole possible judge of the credits given in Bombay, the credits given in Lahore, and the credits given in Madras?—By "Governor" do I understand you to mean the senior executive official?

6754 Yes?—He would undoubtedly have the power of veto as he has now in a smaller concern, but individual branch managers have very large powers with regard to their localities, the man on the spot must have large powers

6755 Do you not think, looking at all this, that it is not within one man's power to supervise the management of a State bank?—I do not see that there is any very great difference in it from what is done at present. You have got your different spheres of influence, you have got the Bank of Bengal sphere, the Bank of Madras sphere, and the Bank of Bombay sphere they are at present directed by the local boards, and they would continue to be

6756 I know there are spheres?—The fear of the central board vetoing in Calcutta any credit proposed to be given in Bombay is very unlikely, unless it was in the interests of the bank. There should be no jealousy between one quarter and another. The business should be carried on for the benefit of the bank as a whole, and if the trade of Bombay requires financing, and it is to the interests of the bank as a whole, Bombay would get the finance

6757 The State Bank would have the dispensation of proper credits all over India?—I would say so

6758 And they would be guided by their managers, who may be sent from one place to another just as they are now?—Quite so

6759 Do you know that even now the bills that are discounted in Bombay are bills of people who are known in Bombay, and the bills that are discounted in Calcutta are bills of people who are known in Calcutta?—I do not follow your question

6760 Even now, with the centralised Presidency Banks there is a difficulty in dispensing credits up country in the case of people not known at the bank, as at the bank they have to take their information from European officers and it is a European board that has to act. Perhaps, therefore, the natives do not get the credits they really want, which in the case of a State bank it would be necessary they should have. What, would you say, do the directors know now about Pondicherry or any of those places? Do they give credits there?—Naturally they do

6761 What supervision can they have over those credits?—Naturally they cannot go into details. They can only direct the general policy

6762 Did not the Bank of Madras lose large amounts in Ceylon some time ago?—I think it would be very extraordinary if a bank did not lose occasionally

6763 If all this happens in the comparatively small case of a Presidency Bank, how would it be if you were superintending the vast credits of India through European directors?—If the work is too large for the

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Central Board the remedy is to create more local boards, but at present the number of branches, if you take the amalgamated Presidency Banks, is quite small.

6764 Turning to another point, do you mean to say that the Government should lose their profits on the circulation, and give up the control of the large sums in the paper currency?—With regard to the profits on the circulation, I naturally suppose that if it is handed over to the proposed bank, the Government would expect to receive remuneration on an average of what their profits had been for the last two or three years.

6765 Do you think that if the Government handed it over to the State Bank, the Currency Department would not have work to do?—So far as the Currency Department is concerned, they would cease entirely. With regard to the Treasuries, in all probability they could reduce their staffs slightly as the Bank took over the work—not entirely, because the head officer of the Treasury has other considerable duties to perform in addition to the actual Treasury work, and probably it would give him more time to attend to those other duties.

6766 There would be no reduction of expenditure, anyhow, in the Government of India's Department because of the State Bank?—There would, so far as the Currency Department is concerned.

6767 Could they dispense with the services of the Comptroller General, of the accountants in the Presidencies, and of the other superior officers who supervise these banks, because under the proposed arrangement the Central Bank would supervise?—They cannot dispense with the accountants-general, because they have other entirely different duties to perform as well as looking after the Currency and the Reserve Treasuries.

6768 Would there be any economy in the Secretary of State's Department here, because the sale of Council bills is given over to the State Bank?—I should not think the economy is worth considering.

6769 So on the whole a State Bank means that the Government, according to your idea, might put about six millions or four millions into the Bank and make their officers responsible for work which they do not know anything about?—As I have said before, I do not suggest that the Government directors are essential.

6770 In that case, the Government might be bound on a motion in Parliament to provide for the restitution of the shareholders' money. That was attempted to be done, as I have mentioned, through Mr. Mill, but he lost by a narrow majority, otherwise the Government of that day would have had to pay the money?—I do not admit that, because there are Government directors of the Bank, the Government itself would be responsible.

6771 Why have you no native directors to give you some idea of the credits of the men in your Presidency, natives are shareholders?—A large proportion of the shares of the Bank of Madras are held by Europeans, and no native directors have been appointed by the shareholders, in fact, I do not think that there has been—certainly not within my recollection—a native director proposed.

6772 Have these directors a large interest in shares or are their interests nominal?—As a rule?

6773 Have they 20 or 30 shares only, and is it sometimes said they have got those shares after appointment?—The directors have naturally to hold their qualifying shares, beyond that I do not think I am entitled to say how many shares they hold.

6774 Would you compare a State Bank in India with the Bank of France, the Bank of Germany the Bank of England, and so on?—I admit that banking in India is not so fully developed. My object is so far as possible to develop India, and I think the time has now come for a step forward.

6775 If you take the governments in civilised countries, the taxes go to the banks and everything appears on the table, and the government are more

indebted to the banks than the banks are trying to get any money from them. For instance, the last account shows that there is 10 millions belonging to the State in the Bank of England, but the State has a debt of 11 millions to the Bank, so there is not much lending there. You want the Government of India to lend to the Bank 25 to 30 crores?—The State here may be indebted to the Bank of England, but on the other hand the Presidency Banks have large holdings of Government paper which, in other words, is a Government debt. I daresay there may be a difference from the legal point of view, and if anything happened to the Bank of England there might be the power of set off which, in the case of the Government paper held in the Presidency Banks, there would not be, but I do not see that that is an insurmountable difficulty, either.

6776 So you see there is no comparison. It is the same with the Bank of Germany and the Bank of France, they have State accounts, and they write them off by indebtedness to the banks. But this State Bank will be quite different, will it not?—In so far as there would not be the power of set off by the present holdings of the banks in Government paper which they hold instead of a specific debt.

6777 Knowing the way the Government of India works, the banks will add about double the money of the Government of India to their own capital?—I am quite aware that the Government of India might raise objections, but as to what their objections will be and how far they can be met it is impossible for me to say. My hope is that they will take a broad view and consider what is beneficial to the country. It will be right to take a certain amount of risk.

6778 Would you also have a branch in London of that Central Bank or State Bank?—I should say that would be an essential part.

6779 What position would that branch occupy?—That branch would be a very important one, and it would be essential that there should be a local board in London.

6780 Would it lend money?—It would both lend and borrow money. It would carry out exchange transactions on behalf of the Government between India and Europe.

6781 A State Bank does not borrow money?—A bank's business is entirely borrowing on the one side, and lending on the other.

6782 The Bank of France does not borrow and the Bank of England does not borrow?—You deposits are borrowings.

6783 Of course they borrow in a way?—I have a very vivid recollection of the Bank of England in 1891 borrowing three millions from France.

6784 Suppose you borrow in London for six months or a year, if you borrow for six months and then repay, it will cost you 3 per cent more than the Indian rate, and if you borrow for 12 months it will cost you 1½ per cent more for the remittances?—Naturally you would not borrow in London if you could borrow in India cheaper.

6785 That would be exchange business on a very large scale?—I do not quite follow the question.

6786 If you borrow in London for India, you would have to remit that money, would you not?—Yes, you would.

6787 And you would have to bring that money back when you repaid it?—Yes.

6788 If you have to get that money back in a crisis, the exchange will go against you?—If a crisis happens and you have suddenly to remit very large sums from India to London—and I assume the crisis is in London, that you have got money out in India and that you want to get it back to London—undoubtedly it might affect exchange. But if the bank is working the exchange business on behalf of the Government, they would have very large accumulations of gold in the currency reserve, which is earmarked in London, and it would be a very simple operation to increase your silver reserve in India and release the gold in England without any loss on exchange.

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6789 That will to some extent wipe out the exchange banks who are doing that business, and they have a certain sort of claim on the Government of India?—I think in the previous part of my evidence I distinctly stated that the interest of the exchange banks was not to be interfered with, and that any exchange business the central bank did would be restricted to re-discounting the exchange banks bills and selling on India, *vice versa*, in other words, it would simply be acting as the agent of Government for the sale of council bills

6790 It would be doing all that work with the view of profit for its shareholders?—It would not be to the detriment of the shareholders

6791 But it would be a much larger institution?—It would be a very much larger institution. My chief object is the development of India generally

6792 If you borrow or sell 25 or 30 millions, do you think that would be such a small operation that it would not wipe out the exchange banks who have now control of that business?—You are putting rather a hypothetical case which I do not admit in practice will ever come about, namely, that the State bank would borrow 25 millions in London

6793 Would you auction the bills?—No, my suggestion was that they should be sold at a fixed price

6794 Would that be fair to the exchange banks?—I do not see how that would be interfering with the exchange banks

6795 If you were to remit your own money to and from India by the auction of the bills, I can understand that the exchange banks might have some chance, but if you are to have the power of appropriating to yourself the Secretary of State's bills, and bid for your own requirements at rates of your own making, the exchange banks would certainly be wiped out?—It would not be interfering with the exchange banks' business

6796 Will the London branch be under the control of the Bank of Calcutta, or will the London branch be the central office?—My idea is that the head office of the Central Board should be in India, not in England

6797 Then the branch in England would be subordinate to the Central Bank in India?—It would naturally have very large powers

6798 Would the Secretary of State have no voice in it?—I presume the Secretary of State would have no actual control, but if the Government desire to be represented on all the boards, there is no reason why there should not be a representative on the London board as well as on the local boards in India

6799 Is it the idea that a State bank will help industries and agriculture?—Yes

6800 How can a State bank help agriculture?—Indirectly, by developing credit generally all round

6801 How will you actively assist agriculture?—Indirectly

6802 Will you lend to agriculturists?—Yes, I would lend to agriculturists, I do now

6803 That would mean very small bills, would it not?—They are naturally small bills on the security of their produce. When the harvest season comes on, they bring their produce in and put it in store under the bank's control, and they get an advance on it

6804 Who will advise you as to the credit of the small agriculturist, who, in the district itself, would know him?—We have means of finding out the position of the agriculturist. There are title deeds and registration offices where you can find if there is any encumbrance. It is done in practice now

6805 How will it help in increasing the note circulation if it is in the hands of a private bank? Do you know that in India a private bank or a central bank will be treated with suspicion, whereas the Government is not treated with suspicion, and that there is a greater chance of increasing circulation under Government than under a central bank? What experience have you which supports your view that the central bank's note circulation will grow with greater rapidity than a circulation through the Government?—

In my opinion the banks have more opportunities of inducing merchants and others to work by currency notes than Government have. Banks are *more* in touch with those people, and by having a large number of branches all over the country where these notes would be readily received, they could do a great deal

6806 Do you think a central bank could induce people to take notes in India?—I think so

6807 Do you think merchants would take the notes of the bank in preference to Government notes?—I do not go so far as to say that they would prefer the bank's notes to Government notes, but I do not look to any appreciable decrease in the circulation of the notes simply because there has been a transfer from Government to a central bank

6808 For public works I think you can borrow more money in India now?—Do you mean for Government loans, or railway loans?

6809 For railways and canals?—Undoubtedly, owing to the rising prosperity in India, there is more money available for investment in such securities

6810 The Government has lent about three or four crores to several municipalities?—Yes, and to port trusts

6811 But the last loan of three crores has been exhausted, and there is a backwardation of prices?—That is not shown so far as the price is concerned. The last loan, as far as I can remember, went at about 96 2, and the last quotation I saw from Bombay was just about the same rate

6812 Do you know that they cannot deliver the paper they have sold, and that they have to pay backwardation on it, as it is called?—Of course it might happen under any circumstances that a speculator would be found short

6813 I think Government could borrow about half of what is required for public works through these Indian loans, what do you say?—I think they might be able to do it in one year. I think they might increase the amount of the loan, provided there was some understanding that in the height of the busy season the balances in the reserve treasury which they were accumulating, would be available for advances. Undoubtedly the banks could carry very much heavier holdings of Government securities and other authorised securities, if there were an outlet such as that, and if there were also further powers of access to London in times of stress

6814 As you know, you have brought back in the last five or six years rupee paper from England to India?—Yes, that is true

6815 I think in the last four or five years we have bought rupee paper in London here and taken it to India to the extent of about 14, 15, or 16 crores?—Not quite so much as that. It was about 24 crores, was it not?

6816 It is now about 14 or 13 crores?—At present it is rather less than that. The holding in London is now about 12 crores, and I think some years ago it was as high as 24 crores

6817 They could not float the same loans here at 86 or 87 now, could they?—I know that to my sorrow

6818 If they needed money and they raised the interest to 4 per cent., or anything like that, they could have large sums floated in India, could they not?—Undoubtedly, if you raise the rate you ought to be able to float larger loans, but I think it would be hardly fair to the present holders of Government paper to depreciate the present holdings of 3½ per cent., it would only be in very extreme cases that that would be justifiable

6819 (Sir James Begbie) You favour the Council Bill system not only for providing the Secretary of State with funds, but also to meet the requirements of trade?—Yes

6820 The trade you refer to is I fancy, the foreign trade?—Yes

6821 But the foreign trade is only a part of the internal trade, is it not?—The foreign trade is only a part of the total trade

6822 The Council Bill system involves the holding up in India of the surplus Treasury balances, does it not?—Under the way it at present works it involves that by the collection of the revenue into the central



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treasures in preparation to meet the Council Bills that will be afterwards drawn

6823 I think you agree that that practice helps to bring about the high rates of interest which prevail in India at certain periods of the year?—Yes

6824 And is, therefore, disadvantageous for the internal trade?—It is disadvantageous

6825 If the surplus Treasury balances are lent in India to prevent those high rates, the money cannot be available for Council drafts, and *vice versa*, if held to meet Council drafts the money cannot be used to help the internal trade that is, it cannot be used to give loans?—As at present constituted that is so That is one of my strong arguments in favour of a Central Bank with a London office, because it would simply be a transference then of funds from the Indian branch of the bank to the London branch, and if actual currency is short in India it would only then be necessary to indent upon London gold to put into the currency reserve here and to withdraw it in India But that would not take effect except as the very last resort The Secretary of State's balances, which would be accumulating in the London office, would be practically available for the London market, because the Central Bank's reserve would be with the Bank of England.

6826 As at present conducted, it is a question, is it not, whether more consideration is due by Government to the business of the foreign trade than to that of the internal trade?—That is so

6827 You also favour the Council Bill system with the object of reducing the movement of gold coin from Europe to India?—That is so

6828 Does that apply also to bills sold for the purpose of restricting the imports of gold from Australia and Egypt? I ask the question because you mentioned especially the sending of gold coin from Europe to India?—It would perhaps be difficult to fix a rate that would prevent certainly Australian gold from coming in, unless you were to fix a very low rate

6829 Your object is to prevent gold coin coming into India?—To prevent unnecessary gold coin being withdrawn from London at times of pressure, as I hold that a tight money market in London reacts on the Indian export trade

6830 Your object is to prevent disturbance of the London money market?—That is my chief object

6831 You propose to achieve that by sales of bills in London to the extent that would be sufficient for that object?—Yes

6832 Would that prevent all possibility of disturbance to the London money market, do you think?—It would not prevent all possibility of disturbance, but it would mitigate it If you have Egypt and other places calling for large quantities of gold, and if India comes into the balance as well, that increases the difficulty, certainly

6833 If you sell bills in London, to a great extent that means, does it not, that you must sooner or later buy silver for coinage?—It will mean that, if the silver balances in India have run low

6834 If you sell bills in England for the purchase of silver, does not that merely transfer the demand for gold in London from India to some other country?—If the balance of trade has to be paid for by London, it might mean the withdrawal of actual gold from the market

6835 The effect would be that, instead of India wanting the gold some other country would want the gold?—Not exactly that they would want the gold They might pay off the obligations that they had in London

6836 Still, the gold would be due to them, whether they took it or not?—A certain sum would be due to them The gold might be withdrawn, I admit, but the probability is that they would be paying off another obligation or using it for investment in London generally

6837 You say gold is only preferable to silver as currency because it is more portable?—I referred there to India. There is really no demand for gold as currency from the people there generally, and it is a case of more or less persuading them to take it, but

once they have got the taste for it, they will continue to demand it

6838 Would you not say that if gold formed a substantial portion of the metallic currency in India, it would have greater advantages than mere portability?—I do not think there is any great advantage

6839 In the case of an adverse balance of trade, for example?—I do not think in the case of an adverse balance of trade, unless the proportion of gold in active circulation was very much larger than silver, that much of the gold would come back again.

6840 (Sir Robert Chalmers) Would it even then?—I am not prepared to say that it would

6841 (Sir James Begbie) You gave some figures relating to the Presidency Banks, these show a great increase in resources in the last 15 years?—That is so

6842 Can it be said that these banks actively promoted that increase?—I think they have done everything in their power to promote the trade of the country and to develop their banks

6843 To meet trade demands and to prevent a high rate of discount?—They have done everything they can

6844 You agree, I think, that it is not their fault that periods of high rates of interest recur?—It is certainly not their fault

6845 Regarding a centralised bank you would include, I understand, the whole of the Treasury balances in India and in London?—That is so

6846 Also the paper currency reserve?—Yes

6847 And the gold standard reserve?—No, the gold standard reserve would remain separate

6848 It would not be included with this?—It would not be included in the bank's holding

6849 If these balances were combined with the cash reserves of the Presidency Banks in one balance sheet, it would show a position of considerable strength, would it not?—It would show a position of great strength

6850 Do you think a better idea could be formed of the financial strength of India from the balance sheet than from the same reserves isolated and distributed as they now are?—It would be more apparent

6851 Would such a balance sheet affect the general credit of the Government of India in the eyes of the world generally?—I do not think it would affect the credit of the Government of India

6852 Would it not improve the credit?—I do not think it would have any great effect upon the credit of the Government of India. As far as I know, the Government of India's credit is unquestioned at present

6853 Under the scheme you outline you would look for smaller fluctuations in the discount rates?—I do look for smaller fluctuations in the discount rates

6854 And a lower maximum?—And a lower maximum.

6855 Would that be an advantage to the trade of India generally?—That would be a very great advantage, in my opinion, to the trade of India generally

6856 (Mr Gillan) What are these gold bars that come to India at present, I am told that they are refined and polished?—I understand so

6857 (Sir Robert Chalmers) Are they not 10-oz bars from the Australian mints in the main?—To a certain extent, and from London, too, I understand I may say that I do not profess to have a very great knowledge of this, because there is very little direct import of gold into Madras, it all comes through Bombay

6858 (Mr Gillan) What I want to put to you—I do not know whether you have any knowledge of the subject—is, whether it is true that they might be described as a sort of fancy article going at rather a fancy price?—Not that I am aware of

6859 They are manufactured in a sense, they are not rough bar gold, are they?—No

6860 They are not the sort of gold that probably would go to a mint?—No But so far as I know, they are not sold at any fancy price. There are certain marks that carry a slightly higher price than others.

6861 (Lord Faber) Do I understand you to say that these bars imported from Australia and from

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England in the condition we have just had mentioned to us, would not go to a mint if there was one?—If there was a mint my suggestion is that so long as sovereigns are legal tender there would be no object in importing bars in preference to sovereigns

6862 But you do not really think that these bars are fancy articles because they are polished, and so on, do you?—No, I do not. These bars are imported very largely for ornaments, and, in fact, so are sovereigns very largely used for that purpose. I know in one small village in our Presidency they take between 300 and 400 sovereigns a week from Bombay, which are melted down immediately and manufactured into an imitation coin representing the old 5 franc piece, which is very popular as an ornament for a necklace. These imitation 5 franc pieces are not counterfeit coins, because while they have the head on one side, on the other side they are blank.

6863 (Mr Gillan) In the same connection you have mentioned South Africa, and I do not quite understand this remark of yours—you say the exports from India to Africa are negligible?—That is so.

6864 But there is a trade done there, because there are steamers going from India to South Africa?—That is so.

6865 What do they carry?—They carry various Indian produce.

6866 You mean that it is on a small scale?—Yes, it is not sufficient to take into serious consideration for repayment in gold.

6867 What do those steamers bring back from South Africa—I am told they bring back very little?—It is, so far as I am aware, very little.

6868 Would it not be worth the while of these steamer companies to offer very low freights to take the gold to India?—I believe it would.

6869 Then you think it is quite conceivable that you might have gold going to India?—Quite.

6870 In fact, do you think it might reach a pitch which would be inconvenient?—It might.

6871 Is that what you claim—that if it is possible at all it would be so?—If gold can be brought profitably from South Africa, then that gold would come until the exchange was knocked down to such an extent that it would be more profitable to send it round the old course.

6872 In regard to Council Bills I am not sure that I understood you properly in your reply to the Chairman yesterday. I think you said that the interests of trade were a more important factor than Government interests, is that so?—It seems to me that at present the functions of Council Bills are more important with reference to trade generally.

6873 The position is this, is it not, that the Secretary of State, having money in India, wants it at home?—He might require money at home.

6874 And a good many other people who have money here in London want it in India?—That is so.

6875 The Secretary of State and those other people simply exchange obligations?—That is so, up to a certain point.

6876 That being so, can he take money in London from those other people which he does not want here and pay out money in India, which *ex hypothesi* he requires there?—I think that that can be done through the Currency Reserve.

6877 Do you think that that is the proper thing for the Secretary of State to do?—I think that under the circumstances it is desirable, in order, as I have said, to avoid the withdrawal of large quantities of gold from the London money market, which would immediately react upon the export trade of India.

6878 I put it to you that the question is really one of the distribution of the Secretary of State's funds according to requirements, and that the advantage to trade is incidental, but you do not accept that?—I do not accept that with the closed mints. If the mints were again open to silver it would be a different matter.

6879 (Chairman) You do not recommend the reopening of the mints, do you?—No, certainly not.

6880 (Sir Robert Chalmers) Does anyone in India?—I have heard it.

6881 A voice crying in the wilderness?—Yes.

6882 (Mr Gillan) I think you recommended that Council Bills should not be sold at less than 1s 4d?—Yes.

6883 As a practical question, would you now at the present moment stop the sale of Council Bills?—Yes, I should stop it.

6884 Probably, then, the stoppage of these sales would continue for the next few months?—It might.

6885 Meantime, how would the Secretary of State supply himself?—If he has any need of funds, if his balance here is low he would do it through the Currency Reserve. You have many millions in London at present, so you could release gold here and put silver into the Currency Reserve in India.

6886 I thought yesterday you mentioned the Gold Standard Reserve?—I think I said the first operation should be to release gold from the Currency Reserve.

6887 In any case the Secretary of State is then reducing his sterling resources?—He is.

6888 Do you think that is a wise thing to do, in view of the possibility of a failure of rain?—So far as I can see, eventually it will make no difference. It is only that he has anticipated the sales by a short time. Selling Council Bills below 1s 4d indicates that there is no real demand. It will not affect the balance of trade eventually. The balance of trade has got to be met by Government unless they throw up the sponge, and it is easier to keep exchange steady than it is to bring it back again once it has dropped. My object is not to let it drop.

6889 It comes very much to the point Mr Keynes put to you yesterday, that you consider the Secretary of State is now in such a strong position that he can afford to attempt this mechanism of a higher exchange than hitherto, that is to say, he lets it drop now to 1s 3½d, but he can afford to keep it up to 1s 4d?—That is so.

6890 The general position of the Indian money market is, is it not, that you have almost what you may describe as a plethora of all the year round money and a temporary strain in the cold weather?—No, I think I should put it that the plethora is for quite a short time.

6891 What do you pay for your deposits?—I pay 4 per cent for all the year round, and in what I call the slack seasons I will not receive short deposits.

6892 I am speaking of 12 months' deposits, you pay 4 per cent there?—Yes.

6893 Do the other Presidency banks pay so much? I think the Bank of Bengal does not.

6894 Probably it pays less?—I know the Bank of Bengal pays less, they pay 3½.

6895 Is it within your knowledge that any of them have been turning away deposits?—It is not within my actual knowledge, but I have heard that deposits requiring higher rates have been refused.

6896 Supposing the giving out of Government balances was to reduce the rate of money in the cold weather, your deposits would be earning less then, would they not?—It is possible that the result would be a reduction in the rate of interest allowed.

6897 It might be possible?—It might, but I rather think that trade would develop the outlet for it, and that we would still be able to pay the 4 per cent.

6898 (Lord Faber) Of course, coming into the market with a big deposit must necessarily knock down the price of money?—It would knock down the price of money.

6899 (Mr Gillan) What is stringency due to? There is a need of money to finance the crops, and you say there is a withdrawal of money by Government?—From active circulation.

6900 Are those in your opinion the only two factors?—Those are the main factors.

6901 Could you have a stringency, we will say, in a time of indifferent or insufficient crops?—It is unlikely.

6902 How is this extra demand that comes in cold weather met? I presume you employ your deposits to a much larger extent than in the off season?—That is so.

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6903 That is one thing. Are there any local resources?—There are no other local resources.

6904 Only the deposits at the Presidency Bank?—For trade generally?

6905 Yes?—There are the exchange banks. They do to a certain extent finance the local trade. Then there are the native bankers.

6906 I suppose the other banks are really in the same position as you? They have been holding up a lot of money, and then taking that out and using it in the cold weather?—In the busy season.

6907 What do the exchange banks contribute? You have got all this money in India that has been lying idle say for a considerable part of the year, and that is brought out and used, do the exchange banks bring in some from outside?—They bring in to a certain extent from London.

6908 We have been told that there is a sort of hiatus between the time when money has to be taken out to finance the crops and the time when the money comes back through Council Bills, that is what you said yesterday, I think?—That is what I said.

6909 Do the exchange banks not, as a matter of fact, anticipate, if I may say so?—No, I do not think they do anticipate.

6910 There are no finance bills in India, are there?—I think not.

6911 They are drawn actually against produce?—They are drawn against produce, so far as I am aware.

6912 As regards the general relations of the Indian and English money markets, I think a witness told us that there was very little of such transfer of funds between the two countries which influenced the bank-rate as generally happens between any other two countries, is that your opinion?—That is my opinion.

6913 Then why is it that there seems to be so little interchange of capital, that is to say, why does not more go into India when you have a very high rate, and why does it not flow out when it is not usable in India?—There are two factors—there is the fear of the loss on exchange, and I think there is not the machinery. The exchange banks have not got many branches throughout the country, and their business is largely in financing the crops when they are ready for export.

6914 I take it the ruling factor is still this risk of variation in the exchange?—That has a great deal to do with it.

6915 That is the chief factor?—I think so.

6916 (Lord Faber) Is the variation in exchange enough to prevent money flowing into a country where the interest is very high, from a cheap country?—If the rate of interest is high for a short period only?

6917 Yes?—If money was brought in to any large amount, the rates of interest would immediately fall.

6918 It is not a big enough country to get an average high rate of interest?—I think not.

6919 (Sir Shapurji Broacha) And the cost of bringing it has also to be taken into consideration?—Yes.

6920 (Mr. Gillan) What happens to this money in the country? How far down, so to speak, does the money get? Consider the cultivator, what sort of interest do you suppose he is paying for the money he gets?—He pays a very high rate of interest—up to 18 per cent, perhaps.

6921 Not more than that?—I do not think a large cultivator would. A very small cultivator would probably pay very much higher.

6922 Is that inevitable under the conditions under which these loans are made, or is it due to some separation in the money markets of India which prevents the money getting down to the country?—I think it is largely due to want of competition by large institutions, which would enable the cultivator to get financed cheaper. At present he is very much in the hands of the local moneylender.

6923 Does the money get down from the central markets into the hands of these local moneylenders?—Indirectly it does.

6924 Is there any channel of communication?—The channel of communication is through the native bankers.

6925 I think you mentioned co-operative credit societies yesterday?—They were mentioned.

6926 Have you had anything to do with the financing of them?—To a small extent through the central bank in Madras. The rural banks borrow from the urban banks, the urban banks borrow from the central bank on promissory notes, and the Bank of Madras to a certain extent opens credits for the central bank.

6927 Have you developed cash credits in connection with these co-operative banking societies?—Yes.

6928 In connection with this question of the central bank a good deal of stress has been laid in the old correspondence on the restrictions of the powers of the Presidency banks. It was pointed out that there was no elasticity of funds or resources in case of stringency, and that when it is required to raise money in India there was no one else likely to be in a position to find the money, I presume that is so?—That is so.

6929 Government would not undertake to lend, and they cannot borrow in London, that was the case which was put. Would this need of elasticity in case of crisis or scarcity be sufficiently met by the proposal to give loans from the Treasuries or from the paper currency, or would a resort to London still be necessary?—A resort to London would be desirable.

6930 Do you think the situation is not sufficiently met by these loans which are proposed from Government funds?—It is conceivable that the Government balance would be very low, and that the notes also had gone down and would not be very much available for exchange. There is nothing gained by closing the outlet to London.

6931 On this question of bringing any money from London, can the exchange banks not bring out all that is required? I want to bring to notice in that connection a letter that was written from the Bank of Madras in 1903\*. It is a letter written by Mr. Kei. He said "The directors wish to say that owing to the growing confidence in the fixity of exchange, money finds its way to India when required through so many other channels that there is not any of that fear of the recurrence of stringency in the Indian money market which there was some years back. My directors therefore indicate that the occasions on which this bank—that is, the Bank of Madras—is likely to find it necessary to have recourse to the London market will not be frequent", that is to say, they were then apparently looking chiefly to the exchange banks to supply their needs?—Conditions have changed very much since this letter was written, but even now, if improved facilities in India were afforded, resort to London would not be very frequent, but what is desired is that in times of necessity there should be some door open.

6932 That you should have that resort?—Yes. You would not of course try to work up to a position which would make a resort to London necessary.

6933 As regards loans, or increasing the Government balances with the banks, as you know, great objection has been taken in the past on the grounds that the Government is already a very large depositor, and that it is exposed to sudden contingencies, and may be obliged to call up the cash at a moment's notice. That sort of position is particularly unsound in India, because, as I think Sir Clifton Dawkins said, although the Indian banks have excellent reserves, it would be very difficult for them to liquidate them at once, and there is no other resource to which they can suddenly go, as a bank at home would go?—That is, I think, a very strong argument in favour of giving the central bank power to go elsewhere.

6934 Under the present conditions you appreciate the difficulty of the Government's position?—Yes, I do.

6935 What is your rule as to the maintenance of a cash balance, what sort of principle do you work on?—Do you mean to what proportion?

6936 Do you keep a sort of minimum?—Yes, we have a minimum.

6937 How much is that?—About 33 per cent.

\* See Appendix XV page 468, para. 4.

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[Continued.]

6938 That is what was, I think, considered about the proper figure in the correspondence that took place some years ago?—Yes

6939 You still go on that principle?—We still go on that principle of 33 per cent of the liability on demand

6940 (*Lord Faber*) What do you mean by cash?—Actual cash—either rupees or Government notes, and nothing else. Balances with other banks are not included

6941 (*Mr Gillan*) That is the proportion of cash to liabilities on demand and within one month?—Yes

6942 You do not extend it in the case of Government balances?—No, that goes in with the payable on demand

6943 Have you seen the figures Mr Abrahams gave us of the percentage of Government deposits to your capital and reserve?—No, I have not seen those figures

6944 In the case of your bank, the percentage of the Government deposits to cash seems to vary, it is between 30 and 40?—That would be about it. That is the Government deposits to cash

6945 Do you think that is unduly or dangerously high?—No I do not think so

6946 About the increase of capital which you proposed, I think you said 10 millions?—Bring it up to 10 millions, that was the figure I suggested

6947 There was a passage in the old correspondence when this was being discussed before, in which Sir Clinton Dawkins, I think, said that an increase in the capital would involve a corresponding increase in the cash balance, is that the case?—I do not quite follow. In what way would it involve a corresponding increase in the cash balance?

6948 It was not clear to me, and I thought I would ask you. That was apparently very much the reason why at that time they wanted an increase in the capital, so that they might get an increase in the cash balance. You suggested, I think, yesterday, that some increase of capital might be instituted in view of the transfer of the Paper Currency Reserve?—Yes, in view of the liability in connection with the note issue

6949 That liability would be covered, surely, by the reserve held?—Of course it would depend upon the constitution of the note issue. It does not follow that because the currency was transferred to the bank, the same law would apply to the bank as applies to the Government now, and that the fiduciary issue should be a fixed sum of 14 crores only

6950 I quite agree with that, but still, whatever decision was come to, some arrangement would be made?—Yes, probably there would be specific assets earmarked against the note issue, or it might not be so—it might be held in the general assets of the bank in the same way that the Bank of France's assets are generally held

6951 So why should you increase your capital on that ground?—There is a very large increased liability

6952 I am assuming that the liability is provided for in one way or the other—is sufficiently provided for otherwise?—But if the notes are to be partly secured by the general assets of the bank, it means that the bank's liability is much higher, and the usual thing is to proportion your capital to your general liabilities

6953 Apart from the Paper Currency, is there any other reason that strikes you for increasing the capital?—With the larger deposits that we expect to get from the Government balances, the liabilities generally all round I anticipate will be very much increased—practically doubled

6954 (*Chairman*) Your suggestion really comes to this, that if the Government is to put 4 millions of capital into the bank, it will be encouraged to lend the bank a larger sum than at present?—Yes. I suggest that as a means of raising capital. There would be a difficulty in raising such a large sum of money immediately elsewhere, but the Government could gradually dispose of those shares as the market took them up

It is only an immediate way of bringing that about without upsetting the markets in any way

6955 In the meantime the security of the Government's balances would not be increased?—No. That would be so, from the Government's point of view, but the general public would be much larger creditors than the Government, and from their point of view it would not be so. The Bank's liabilities to Government might be 12½ million, but to the public about 55 million

6956 (*Mr Gillan*) Would you be able, as a matter of fact, to use this 10 millions at once?—I think there would not be very great difficulty in finding outlets for it, I do not say immediately in the actual trade of the country, but so far as I am aware, India is calling out all round for development, in railways, in harbours, in every conceivable thing, and there would be no difficulty in utilising the money immediately. I could put it all out in Madras in a week for new railways if I had it

6957 It is rather curious, if that is the state of affairs, is it not, that the Presidency Banks should find so much difficulty in making use of their deposits?—We have no difficulty in making use of our deposits. We could immediately undoubtedly invest the whole of it in railways and other securities, but when the busy season came round, then there would be no money left to finance trade. We have to look to that

6958 I think Madras is somewhat different from Bombay and Calcutta, and of course Madras in itself would only be able to use a comparatively small sum.—I can put up a very large sum in the development of the country. If you develop the country the trade will develop in proportion

6959 Suppose you raised your capital to 10 millions, would you be able to maintain your present rate of dividend?—I conceive that in the immediate future there is a possibility that the earning power might be reduced, but in the long run it must be so beneficial to the country that they must share in any developments and the dividend power would rise

6960 That would be a very serious drawback, would it not, in the launching of the scheme?—I do not think so, because the earning power of the banks is not all paid away in dividends by any means

6961 You think it would not make it difficult to get the money, or to negotiate with the present shareholders, you think it would not embarrass the negotiations?—There might be some opposition on that score

6962 On this question of the capital it seemed to me that you are increasing capital in anticipation of requirements, and that it would be better to increase the capital gradually as you could find occupation for it?—The object of the increase of capital is to proportion it to your liabilities

6963 You must face the fact that for a little time you will not find full employment for it, so that probably you will not be able to keep up your rates of dividend?—I do not think it would be very long before we found we could put it into full employment, as long as railways and irrigation works are calling out for money

6964 (*Chairman*) You have said once or twice the drain of gold from London in your opinion reacts on Indian trade?—On Indian export trade

6965 I understand you to mean that it reacts injuriously?—Yes, injuriously

6966 Would you develop that for a moment?—A large export of gold from London naturally raises the rates in England, and as the export trade is financed in England that would make its finance more difficult. With higher rates, as I said the probability is that prices will drop, so that the consumers on this side of it would live from hand to mouth

6967 In your opinion, I understand, the bank rate in London is quite as important to Indian trade as the bank rate in India?—I would not go so far as to say quite as important, but it is a very important factor

6968 At least it ought never to be left out of account?—It ought not

6969 In considering the operations conducted by the Secretary of State?—I agree to that

6970 (*Lord Faber*) You do not appear to think that gold in circulation is an advantage?—Not in India—I do not think so

\* Appendix I, page 5      † Appendix XV, pp 397-8

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[Continued.]

6971 Is it not the fact that having gold in circulation is an advantage, because gold is the money of the world and can be used to pay foreign debt in case of need?—In my opinion, if gold is put in circulation in India, when the time came to pay the foreigner that gold would not be forthcoming.

6972 It would be hidden away, do you mean?—Yes. There is so much coin in active circulation in India and banking is not developed to any extent. There are large tracts of country where the actual coin goes out, and if the demand for the export of gold comes suddenly, I do not see how this money that is out in small sums in the country will come back again.

6973 You said another thing that was interesting, namely, that the banks would be inclined to carry more investments in their balance sheets if, at certain times of the year, there was a central institution where they could borrow on these investments?—That is so.

6974 Do you discount direct the small bills of agriculturists? We do not do that in England, but, as you know, many millions are spent in the discounting of bills under 51 by the Bank of France. Do you do that at all in India?—Not so small as that. We discount direct bills that are equal to about 1001 or less—down to 401 perhaps.

6975 (*Sir Shapurji Broacha*) Between 1898 and 1902, under Lord Curzon's Government, the mints were empowered to take gold wherever it came from at the English rate of 79s 9d per ounce, and then some gold came from Japan, and Mysore gold was given to the mint, Lord Curzon personally entering into an arrangement with the Mysore Mines to take gold on the English basis instead of its being sent to England?—I did not understand that the Indian mines ever gave gold to the mints. I understood that they had already made arrangements for the sale of their gold in London, and therefore that they could not do it.

6976 They did so for a certain number of years, and then Lord Curzon's Government backed out of the arrangement and the gold came to England. In those years no gold came from Africa, did it?—I am not aware of any gold coming from Africa then.

6977 Yet men would like to bring gold from any place in the world if they could save in exchange  $\frac{1}{10}$ th or even  $\frac{1}{15}$ th of 1 per cent as they have been doing now?—That means that they dispose of their gold in the better market.

6978 A question was asked of you about African gold, but do you not think the Secretary of State's method of selling bills is better? Last year he sold about 25 millions worth, and gold came to India to the extent of 29 millions, so there was no impediment to gold coming to India. Therefore, why should the sale

The witness withdrew

of Council Bills be an impediment to gold coming to India at all?—I conceive of no reason why there should be an impediment to gold coming out. If gold is actually demanded, gold must come.

6979 You say he should sell below the gold point in order to stop gold coming out to India?—So as not to encourage it.

6980 That raises a great outcry in India, and I think the Secretary of State's method is better, because though he sells more than the amount budgetted in the Council Bills, yet gold does come *pari passu*—it did last year and the year before?—It will come from Australia and also from Egypt.

6981 Not allowing the gold to come would rather raise an outcry?—I do not see why, because the Secretary of State sells Council Bills below the gold point, that will prevent gold coming in if it is required.

6982 I think the present method is the best, as there is no impediment to the gold coming in?—My opinion is that he should continue to sell below the gold point.

6983 (*Mr Keynes*) How are your directors appointed at present?—By the shareholders.

6984 Are they in fact appointed in that way, or is it, as is often the case in England, that the existing directors nominate their successors?—If a director retires in the course of the year, the vacancy is filled up by the directors, but at every annual meeting two directors retire, and it is open to the shareholders to re elect them or not.

6985 Is there any difficulty in getting the best available talent?—No, in my opinion we get the best available talent in Madras in this matter.

6986 You do not find cases in which men who would be exceedingly suitable cannot find the time for the work?—No, we have not found it so. It is considered an honour to be on the Board of the Bank of Madras, and the best men are always available to take it up.

6987 How are they remunerated?—The remuneration is so much per meeting—so much for a general board meeting, and so much for a committee meeting.

6988 Is it not any substantial amount?—It is not a very large sum.

6989 Nothing that you could expect a man to give a good deal of his time for?—No.

6990 Might not Sir Ernest Cable's suggestion of uncalled capital meet the point which was raised by Mr Gillan at the end of his examination?—Do you mean by uncalled capital, instead of calling up the full amount of capital—do you mean an uncalled liability?

6991 Yes?—I think it would to a certain extent.

At the India Office, Whitehall, S.W.

SIXTEENTH DAY.

Thursday, July 24th, 1913.

PRESENT

THE RIGHT HON AUSTEN CHAMBERLAIN, M.P. (*Chairman*)

Lord FABER  
Lord KILBRACKEN, G.C.B.  
Sir ROBERT CHALMERS, K.C.B.  
Sir ERNEST CABLE  
Sir SHAPURJI BURJORJI BROACHA.

Sir JAMES BEEBIE  
Mr ROBERT WOODBURN GILLAN, C.S.I.  
Mr HENRY NEVILLE GLADSTONE  
Mr JOHN MATNARD KEYNES.  
Mr BASIL P. BLACKETT (*Secretary*)

Mr CHARLES CAMPBELL McLEOD called and examined

6992 (*Chairman*) I think you are chairman of the Indian section of the London Chamber of Commerce?—Yes.

6993. And you represent that section here to day?—Yes.

6994 You also represent the Bengal Chamber of Commerce?—Yes.

6995 In the memorandum which you have submitted to us (see Appendix XXVI., page 597) you express general agreement with the letter which has

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[Continued

been addressed to the Commission by the Bengal Chamber\*?—I do

6996 I think it is your opinion that the fixing of the rate of exchange has been of great advantage to the trade of India?—I think there have been circumstances that have helped it, but I think on the whole it has proved so

6997 May I take it that in any case under the circumstances of to day you would not suggest any reversal of that policy?—No, I would not

6998 In regard to the balances which have recently been held both in India and in London by the Indian Government and the Secretary of State respectively, have you any observations to make on their size?—None

6999 In so far as the Secretary of State has with drawn those balances from India to London, do you approve his action?—I do

7000 I think in regard to the reserves which are kept, you express the opinion that the Gold Standard Reserve should be kept in London?—Yes, that is my opinion

7001 Just give me briefly your reason for that opinion, please?—I think that the gold is always better held in London than it is in India, and that the securities can be lent out perhaps to more advantage in London than in India, and would be more quickly realisable

7002 Perhaps one might add that if a crisis comes in which the Gold Standard Reserve has to be drawn upon, it would be in London that it would be needed?—That is so

7003 As regards the amount of the Gold Standard Reserve, you are of course aware of the way in which it has increased up to the present time?—Yes

7004 On one occasion the Indian Government withdrew for the purpose of railway development something like a million, which would have gone other wise to the Gold Standard Reserve, do you approve of that action?—Under the circumstances they had to find the money somewhere, and so long as they put it back again I approve of it, because it was urgent

7005 You say "so long as they put it back again"?—I would not approve of it permanently

7006 Am I to infer from that that you would not like that act to be repeated?—I would not

7007 Have you any figure in your mind as to the sum which the gold in the Gold Standard Reserve should reach?—Yes, at present 5 millions

7008 You say, "at present," but what exactly do you mean by that?—I mean that as the trade of India is at present, I consider 5 millions a prudent reserve to be held in gold, but if the trade of India increases as I think it will, then I think the reserve might reasonably be increased

7009 When you speak of 5 millions, do you mean 5 millions in actual gold?—Yes

7010 Would you increase without limit, from the sources by which the Gold Standard Reserve is now supplied, the amount to be held in securities?—Yes

7011 You say you think it is sufficient to hold 5 millions in actual gold, what process of reasoning has led you to fix upon that particular sum?—There is no actual process of reasoning, beyond the fact that I consider 5 millions is a sum that ought to be held in gold proportionate to the extent of the Gold Standard Reserve at present

7012 When in 1907-8 the Government had to have recourse to the Gold Standard Reserve, the amount they had to withdraw from it was very much in excess of that figure of 5 millions, was it not?—Yes, but then 1907-8 was an exceptional year

7013 I suppose it would only be in an exceptional year that the Government would need to have recourse to the Gold Standard Reserve?—That is so

7014 Do you think that 1907 and 1908 give you the measure of the possible demand which might be made on the Gold Standard Reserve under present conditions?—It is very hard to say I would not like to give a definite opinion

7015 One witness who came before us said the position would have been much more grave if what he

\* See Annex to Appendix XXVI, page 601.

called the storm centes in those years had been in London instead of New York, perhaps you would agree with that?—I do agree with that, certainly

7016 There was a famine in those years in India, but not a very severe famine, I think?—That is so

7017 India has known much greater and much more severe famines?—Yes, it has

7018 So the balance of trade might have been more adverse than it was?—It might

7019 Do you not think then that your figure of 5 millions is rather a low one?—I do not, looking to the present conditions

7020 I think the amount which was withdrawn at that time in different forms was something like 17 millions?—Yes

7021 I understand from what you have said that in fixing the actual gold in reserves as low as 5 millions, you rely upon the possibility of rapidly realising securities to the further amount required?—I do

7022 Do you think that recent experience would lead you to build very confidently on that hope? Suppose, for instance, you wanted to realise 10 millions of securities, even the best securities to day, do you think it would be very easy to do it?—I do not, but I consider the London market is in an exceptionally bad condition at the present moment It has not often been so

7023 Perhaps you would agree that the Gold Standard Reserve is, in fact, a form of insurance against bad times?—It is

7024 And that that being so, it should be large enough, and in a form liquid enough, to meet any strain which we can reasonably expect to be brought to bear upon it?—That is my opinion

7025 But you think with that 5 millions in gold and the rest in securities those conditions would be met?—At the present time I have stated that it might quite easily be increased to 10 millions in future, as the volume of trade increases

7026 I notice that the Bengal Chamber of Commerce say that they would like to see a larger sum than 5 millions held in actual gold\*?—Yes, I have noticed that

7027 In establishing a Gold Standard Reserve the Government of India followed the recommendations of the Fowler Committee, but in the matter of the establishment of a gold currency they have not, I gather from your memorandum that you think they have been wise to depart in that respect from the Fowler Committee's recommendation?—I do

7028 Do you regard gold currency as a wasteful form of currency?—I do

7029 You consider that gold in circulation is less valuable for the support of exchange than gold in reserve?—I do

7030 On the whole, therefore, may I take it that you would desire to see the Government of India push the circulation of notes as far as possible?—I would

7031 And keep their gold in their balances and reserves as much as possible, instead of forcing it into circulation?—That is so

7032 I think you also express the opinion that a gold mint is not needed in India?—I do not think it is at present

7033 If it were decided to open one, do you think they would get much gold to coin?—I do not

7034 Do you think that the mere opening of a mint in India would have any material effect in bringing out gold from the hoards?—It is difficult to say, but in my opinion it would not

7035 Am I right in thinking that you indicate in your memorandum that it is rather through an extension of banking facilities that the gold might be attracted from the hoards?—Yes, that is so

7036 That brings me to the question of banking. Are you in favour of the suggestion which has been made for the establishment of a State or Government bank?—No

7037 Perhaps you would tell us briefly your reasons for your opinion?—I have given them under the head of Central State Bank in my memorandum (page 597), and I do not know that I can improve on

\* Page 603, paragraph 7

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[Continued

what I said there I do not think an institution of that kind is necessary at present. The paper currency is very well managed by Government, the existing banks are quite capable of conducting the trade as it is at present, and also quite capable of great expansion, the shares of the three Presidency Banks are at a considerable premium, and so also the shares of the Exchange Banks are at a considerable premium, and none of these institutions, including the joint stock banks in India, would have any difficulty in extending its capital to a very large extent in India.

7038 You say in the passage to which you refer that you think "it would be quite impossible efficiently to control such an institution from one centre, and especially in a vast country like India" (page 597)?—That is my opinion.

7039 Do you attach great importance to the local management of the Presidency Banks at the present time?—I do.

7040 Would it be easy, in a country situated as India is, to compose a central board which would be representative of the different parts of India and would consist of men of sufficient leisure really to control the business?—I should say it would be very difficult indeed.

7041 It is not very easy at the present time, is it, to find men of sufficient leisure to keep a constant check upon the affairs even of the Presidency Banks?—No, there are very few men of leisure in India of that capacity.

7042 Do you think if there were a central bank, the management of it could be practically left either to the officials of the banks or to official representatives of the Government who might be appointed to give their whole time to the directorate?—If there were such a bank, I think it would require to have men who have studied the conditions in the various Presidencies in India.

7043 It would, I suppose, be necessary to have local boards acting under the central one?—It would be.

7044 May I take it generally that from your experience you do not think it would be possible to get a central board at once really representative of India and really capable of giving such time as would be required for the effective management of the affairs of the bank?—I do not.

7045 In that connection you suggest that the attention of the Government might be more wisely directed, I think, to the encouragement of co-operative societies in order to help the agriculturists?—I do.

7046 That is rather outside the scope of our reference, but I would like to ask you two questions upon it. Have you watched the progress of those co-operative societies in recent years?—Yes, I have.

7047 Are they tending to bring out money from the hoards, and to induce the native to deposit his money with them rather than keep it in his own house?—I think that is the case.

7048 Would you agree with some other witnesses who have been before us, who have thought that too much stress was laid upon the hoarding propensities of the Indian, and that, given his circumstances—in many cases far away from a bank, remote from communication—he did not keep more money in his house in proportion to his means than we keep under our immediate control here?—I would be inclined to agree with that opinion.

7049 If that is so, until those circumstances are changed you could not expect much of the money now held to come out of the hoards?—No.

7050 Now I want to ask you a question or two about capital expenditure. I think you have urged upon us in your memorandum that there is an enormous need for railway development in India (pp 598-601)?—Yes.

7051 And that the Indian Government might not only usefully spend, but would be obliged to spend, larger sums year by year on their capital development than they have been spending in the past?—That is so.

7052 Do you think that for those purposes they can borrow more freely in India itself?—I do.

7053 To what extent, do you think—I ask you only for a very rough answer?—I think they could borrow five millions per annum at present in India.

7054 On terms as good as they could borrow in London on a sterling security?—I am not prepared to go as far as that, but at the present moment you will notice that India 3½ per cent sterling securities are about 87, whereas last week an Indian Government loan of 3½ per cent was all taken up at 96½.

7055 The present circumstances seem to be specially favourable to borrowing in India?—They do. That is what I have stated—that there are periods when it is favourable.

7056 Speaking generally, over a period of years, is it your opinion that the Indian Government might wisely and safely borrow more than they do in India?—I would not like to give an opinion on that, except that I think they could borrow more for railway expenditure, if necessary, than they do at present in India.

7057 In any case you would like to see them borrow as much as they prudently can in India?—I would.

7058 Either in order to add to their total resources or in relief of their borrowings in London?—That is so.

7059 As regards the purchase of silver bullion for coinage, you say that recent experience seems to render it "highly desirable that purchases of silver should be made more regular than intermittent"?—Yes.

7060 I understand you to mean by that that the Government should purchase a moderate amount of silver bullion year by year in anticipation of future demands?—That is so.

7061 I think it has been the case in the past that the demand for rupees has varied very much and very rapidly from year to year?—It has.

7062 Do you think that the scheme of more regular buying that you recommend is practicable under those circumstances?—I do. Having regard to recent experience, there is no doubt that the hands of the Government have been forced to a certain extent, and I do not think they ought to allow themselves to be in a position to have their hands forced. I think therefore that their purchases of silver should be more regular, however small they may be, so as not to show to the public, or to those who are interested in the purchase of silver, that their silver bullion is at a low ebb, and thus give those people knowledge that the Government must come in to buy. I think the Government should always have a regular system of purchasing silver, as to the extent, they should be guided by the state of trade, and it might therefore be less one year and more another year, but the purchases should be more regular.

7063 I think that in the years preceding 1907-8 there had been a considerable demand for additional rupees from the Government, and in those years there was a great return of rupees to the Treasury, if I remember aright, and it took some little time to work them off. Supposing that you had been starting such a proposal as you have just made about 1907-8, when, instead of the public requiring more rupees they were returning them, then if you had gone on buying the silver you would have accumulated large quantities of silver in your Currency Chest or somewhere, which you could not pass on to the public for the time?—Under those circumstances the thing would be to stop purchasing for a time, undoubtedly, until those rupees were worked off.

7064 But as soon as they began to work off would you then begin to buy in moderate amounts?—I would.

7065 It was common knowledge, I suppose, before the Government began to buy a year ago that the time must be very close when they would have to buy?—That is so.

7066 And that they would have to buy in very large quantities?—That was the supposition.

7067 If I gather rightly, your feeling is that that places Government at the mercy of the market, and that Government ought not to be in that position?—That is so.

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[Continued.]

7068 So, even at the risk of having silver bullion lying idle in some quantity for some time, you would make regular purchases rather than wait until their hands were forced?—I would.

7069 In regard to the financial organisation and procedure of the India Office you suggest, "without offering any criticism," that the Finance Committee of the India Office should be composed of an ex-Civilian who has held the position of Financial Minister in India, an Indian Presidency bank manager, a London joint stock bank manager, a retired exchange bank manager, and a mercantile man with a considerable Indian experience. Will you give me your reasons for those proposals?—My reason for those proposals is, as I said, without offering any criticism on the past at all, that that combination would, in my opinion, be the mixture, if I may call it so, of the class of officer who would be best capable of conducting the financial dealings of the India Office and of the Indian Government.

7070 Does this indicate a feeling in your mind that Indian experience is not sufficiently represented in the present financial organisation of the India Office?—It does.

7071 On the other hand, speaking not of the organisation itself, but of the policy which it has pursued, I gather, both from what you have said and what you have written, that you do not suggest for a moment that that policy has been otherwise than in the interests of India generally?—I do not.

7072 (*Lord Faber*) With regard to your opinion that five millions of actual gold in the Gold Standard Reserve would be sufficient, you are aware, of course, that at the period of the last crisis, 1907, India only had one bad year, not two bad years running?—Yes, it was the financial year 1907-8.

7073 There was a bad monsoon in 1907?—Yes.

7074 In that year London was in a good condition to stand the demand on it for gold?—Yes.

7075 I suppose it would not be an unheard-of thing to have two bad monsoons running in India?—No, it would not be an unheard-of thing—we have had two, but it is not very probable.

7076 You may have to face two bad years running, and simultaneously a bad year in the London market that is possible, is it not?—It is possible.

7077 Bearing in mind that in 1907 the demand for gold was, I think, 17 millions on theseabouts, when India only had one bad year, and bearing in mind the possibility of two bad years and a bad year simultaneously in London do you think 5 millions would be anything like sufficient?—The case you put, to my mind, is rather extreme.

7078 I know it is?—I have said in my memorandum that it might quite reasonably be increased to 10 millions. I would not object to the 10 millions, but my opinion is that it should be 5 millions at present, and as the trade increases we could increase it to 10 millions.

7079 I suppose at the back of your mind, as at the back of the mind of all bankers, myself included, you think gold is a very expensive thing to keep?—It is a dead-weight, it does not earn anything.

7080 And you would rather run the risk of not being able to keep up the exchange than forgo some interest which you would have to forgo if you kept a large supply of gold is that a fair way of putting it?—That is right, I would.

7081 You are hardly in favour, I gather, of having much gold in circulation in India, you would rather have it in the banks, would you not?—I would rather have it in paper.

7082 Are you in favour of gold as against silver rupees for circulation generally?—No, I am not.

7083 I notice in the interesting letter from the Bengal Chamber of Commerce, paragraph 15 (page 605), that the amount of sovereigns now being used in India has increased very fast. That shows, does it not, that the population like gold as against rupees? If you look at the little table in paragraph 15 you will see that, while the receipts of sovereigns at the Post Offices in 1907-8 and 1908-9 amounted to big sums, from 1909-10 to 1911-2 they have been increasing markedly?—In

1908-9 it was down by 357,000 and in 1909-10 it was down by 750,000—that is, it was a quarter of the previous year.

7084 And now it has jumped again to higher than that?—It jumped up in 1911-2.

7085 Probably this year, I should think, you will find a further increase still, on account of the gold going to India?—But it is a very small proportion.

7086 Still, there it is and it is increasing. That shows rather, does it not, that the people of India are getting to like gold as a circulating medium?—I would not like to say that.

7087 (*Sir Ernest Cable*) I gather from the whole tenour of your memorandum that you approve of the policy which has been pursued in the past of cautious budgetting, of keeping taxation fairly level, and utilizing the surpluses, if any, for reproductive capital expenditure?—That is my opinion.

7088 You prefer that policy to close budgetting, which involves fluctuations in taxation?—I do, especially in India.

7089 With regard to your remarks on the Gold Standard Reserve, of course there is a point at which any cautious man would say that a safe limit had been attained, and that no further sums should be placed to that reserve. You would favour the suggestion, probably, that any further profits on coinage after that limit had been reached might be spent on railway development?—I should like to say in reply to that that it would depend entirely upon what progress was made in the country itself, and how the exports were increasing. As I state in the memorandum, I do not think that the minimum quantity of gold to be held should be laid down rigidly, I think it would have to be guided by the progress of the exports of the country.

7090 But with due regard to caution, profits might be so utilised?—With due regard to caution, I should certainly think that part of the money made in coinage might go to reproductive works, such as irrigation and railways.

7091 I think you said in reply to the Chairman that you thought the present banking facilities in India met the full requirements of trade?—That is my opinion.

7092 Of course you will admit that there are periodical stringencies in the money market?—There are periodical stringencies owing to what we might call good trade, but the rate of interest has not been very high.

7093 You would not say that that stringency has been caused, as has been said by some of the witnesses, by the withdrawal by the Government of money from the country in the collection of taxes?—No, I would not.

7094 Then you would not agree with the view that if there was a State bank into which those collections were paid at once, they would not have been withdrawn from the market and, therefore, the stringency would not arise?—That is so.

7095 I suppose you would agree that there are two classes of hoarding—there are the hoardings of the people in their huts who bury their few rupees, and there are also the enormous sums which we know are hoarded by the princes and maharajahs, and probably in the temples. Do you think that the institution of a State bank would give a feeling of security to those rajahs and princes to such an extent that they might bank their hoards?—No, I do not.

7096 With regard to financing agriculture in India, it has been suggested that a State bank would perform a very useful function in financing co-operative societies?—I do not think that is quite the way I put it.

7097 It is not in your memorandum, it was somebody else who suggested that. Do you not agree with it?—I am in favour of encouraging co-operative societies, but I am not in favour of encouraging co-operative societies through a State bank. I do not agree that a State bank is required at all.

7098 Do you think that the amalgamation of the three Presidency banks would render their cash more available for the general use of the country, instead



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of its being, as it is at present, in watertight compartments?—No, I do not

7099 (*Mr. Gladstone*) Referring to your suggested composition of the Finance Committee of the India Office, to which the Chairman has alluded, you would approve, I suppose, of the India Office being also fully represented on that Committee? There is no official representative in your list, there is merely an ex-Civilian. Would you not consider it necessary to have the best expert official advice added to this Committee?—Certainly

7100 You think, I gather, that private enterprise should be encouraged, so that the direct capital commitments of the Indian Government may be reduced?—I do

7101 With regard to the purchase of stores by Government you are, of course, aware that a very large sum is expended in London for the purchase of railway and other stores on the grounds mentioned in my previous question, would you favour a policy by which the railways in India were encouraged to purchase and pay in India, thus reducing the obligations on the balances which the Government of India have in London?—If they were satisfied that the works in India could turn out wagons of the same class as they buy here, and that they could procure equally good and satisfactory stores, I would

7102 By my question I meant to include the purchase of material from this country, but that they should be purchased by those who used the material and stores, and ordered and paid for in India?—I am afraid I do not quite understand

7103 Under Government supervision in India the railway companies, for instance, would issue tenders in India, make their contracts there, make their own terms in regard to delivery, quality of goods and so on, and pay for the goods in India?—I see no objection to that

7104 At present a large sum of money has to be provided in London by the Government to pay for those stores, wagons, and so on?—I do not see any objection to their being paid for in India

7105 Would you not see a direct advantage in that being done? I would point out that managers and others, who may be ordering hydraulic machinery and things of that kind, would then be themselves in direct contact with the manufacturers and their agents, and so would probably get better value and, through competition on the spot, perhaps better prices?—What I understand you to ask me is whether it might not be more desirable for the Indian railways to purchase their stores in India than in London, I do not see any objection to their purchasing them in India.

7106 Would you see some advantage in lessening the direct commitments and the commercial work of Government by making such purchases in India?—Yes

7107 It would withdraw that particular section of work from the India Office here?—I am afraid I may not have understood you. What I thought you meant was, would there be any advantage in the Government of India purchasing stores for Indian railways by tender in India for stores that were made in India, giving the Indian people who made the stores, or partly made them and partly imported them, like axles for carriages and so on, the benefit of that. I say that there might be an advantage in that, and that these things could be paid for in rupees in India, but I cannot see how it would affect the balances one way or the other, if that is the point you have in your mind.

7108 It would not affect the trade balances obviously. We have had criticisms on the large extent to which the Indian Government, and the India Office more especially, are engaged in banking and what I call commercial work, such as buying railway stores. You are aware probably that not one shilling's worth of stores can be purchased at present without the direct sanction of the Secretary of State in regard to all the sterling railway companies?—Yes, I know that.

7109 Turning now to the letter of the Bengal Chamber of Commerce, in paragraph 10 (page 604) they say "The difficulty in India is the provision of the 'necessary security' for any loans that might be made in India. Do you not consider that there would be an

advantage in the Government making an issue of short-term bonds which would command a fixed price about par, which would thus largely increase the type of security which could be used for obtaining loans in India from the Government?—Is it your suggestion that the Government should issue short dated bonds and that these should be used by the holders of them as security for borrowing money from the Presidency banks?

7110 As they do in this country, where they issue all kinds of securities—what are called floaters, long-term loans, short term loans, registered stock, and bearer stock?—I do not see any objection to it

7111 That would meet the point made by the Bengal Chamber of Commerce as to the difficulty in India of the provision of the necessary security?—The explanation of that, which I daresay is known to you, is that there are practically only one or two classes of security in India which are available for strictly borrowing purposes under the terms of the constitution of the Presidency banks—that is, Government paper, and I am not sure, but someone here will know it, whether Post Trust debentures do not come within that too. At any rate, the security is confined to one or two classes, and there is nothing like the field that there is, of course, in England

7112 I am suggesting that these securities should be widened, that is why I suggest an issue of that kind?—I do not see any objection to it

7113 Perhaps you are aware that the Government of India now allow advances by the Presidency banks against the securities of Indian railways other than those guaranteed according to a schedule which is added to from time to time, so that those securities, especially if they were increased, would be available for this purpose. Perhaps you do not know that that is so?—I do not

7114 With the view also of meeting that point of the Bengal Chamber of Commerce, would you recommend that the branch line terms which are now given to railway companies with rupee capital should be extended to sterling capital?—Yes, I would

7115 I understand that you are not in favour of a State bank or even of an amalgamation of the existing Presidency banks?—No

7116 If such a bank were established, I suppose you consider the control of such a bank would naturally be in Calcutta, as being by far the largest trade centre and also having the largest population?—I do

7117 It was for these reasons, was it not, that the Government of India decided to retain the office of Head Commissioner of the Paper Currency in Calcutta?—I believe it was

7118 Do you think it would be possible to have the supreme control of such a bank, if set up, exercised from London?—No

7119 It would be obvious, would it not, that men of high standing with Indian experience and the necessary leisure, could be more easily got together in London than in India?—It would

7120 (*Mr. Keynes*) You express a doubt as to the practicability of a central bank in so vast a country as India, because the different races have different forms and different ideas of banking could you give some examples of the kind of differences of which you are thinking?—I am afraid I could not now, but I could if I had time to think it out. I think you would easily be able to collect evidence which would show that there are different forms of banking in Bombay, Calcutta and Madras, that the natives in these three Presidencies work upon different systems, that in some parts of the country they work pretty well by hundis or the exchange of paper, that in other parts they work more on silver and currency notes, and that in other parts, as I say in my memorandum more in the Western and Northern circle, there is a little gold in circulation.

7121 Is that the kind of difference you are thinking of—the difference between the comparative use of gold, notes, and silver, and in some places bills?—That had something to do with it, certainly, but what I was thinking of more was the different sets that you

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meet in those three Presidencies, and their very different ways of doing business

7122 I can understand that there would be all sorts of little differences of that sort of which local boards would have to take account, but I was wondering whether there were differences of a kind which would in any way moonvencence a central board, clearly those you have mentioned would not, would they?—Not if you had on the central board men who were well versed in the different ways of doing business in all the Presidencies. But you must remember that India is a very large country

7123 The point as to whether payments should be made in silver, gold, or notes, would not be one on which the central board would wish to have any particular views?—No

7124 Are there any points which would necessarily come under the cognizance of the central board in which there are important differences between different localities?—I should think there were

7125 Will you mention any?—I can mention nothing beyond the fact that I know that all the three different Presidencies have different ways of doing their own trade

7126 But you cannot mention any precise point?—No, I cannot offhand

7127 With regard to the Finance Committee of the India Office, you are aware of course that it is a Committee of the Secretary of State's Council?—That is so

7128 And that the members of that Council have to advise on many important questions other than financial questions?—Yes

7129 You think that no less than five out of the twelve members of the Secretary of State's Council should be persons of the kind of experience you have suggested?—I have stated five in my memorandum

7130 The total number of members of the Council being twelve, I think?—I think that is so

7131 You think that five out of twelve members of a Council who have to advise on matters of every sort should be persons of the kind you suggest?—I do not go so far as that. My point is this. I suggest that the Finance Committee of the India Office, whatever its size is, would be best serving its purpose by having one of each of these denominations, or perhaps having four out of these five, leaving out one in any way that was thought suitable. That is the combination that I consider would be the best able to deal with those questions

7132 I can understand that that would be a good idea if the Committee was appointed purely for the purpose of financial advice, but that is not the existing system. Do you think that your proposal is compatible with the existing system?—I do not know whether it is or not. What I do know is that I consider that this is the foundation of a Committee that would best serve the India Office

7133 You were thinking of the composition of a Committee appointed *ad hoc*, rather than of the sort of Committee which you could get by forming a Committee out of the members of a Council who are appointed for general purposes?—I do not quite understand

7134 You were thinking rather of what sort of Committee you would appoint if you were appointing a Committee purely for financial purposes?—That is so

7135 You were not thinking whether that was compatible with the other functions which the members of the Council have actually to perform?—That was not in my mind

7136 (Sir Shapurji Broacha) You agree with the recommendation made by the Bengal Chamber of Commerce that the Gold Standard Reserve should be held in London, and that at least 5 millions should be held in gold?—Yes

7137 That was not the opinion of the Bengal Chamber of Commerce just after the exchange crisis. Does the Bengal Chamber of Commerce make that recommendation because it now thinks that half a loaf is better than no bread?—I think they have fully explained why they changed their opinion to a certain

extent. It was consequent on the change that was made

7138 I will read to you a dispatch of the Government of India which is an echo of the opinion of the Bengal Chamber of Commerce. This is from a letter of the Government of India to the Secretary of State, No 89, dated 1st April, 1909 (Appendix V, page 170, paragraph 7). "The point is one on which informed public opinion in India is singularly unanimous. We are frequently asked why we strain after interest on the Reserve which is the basis of our currency system, and consequently one of the chief pillars of the credit of India, and it is pointed out that other countries are careful to retain the ultimate foundation of their credit in bullion

"Moreover, we conceive that the position of the Government of India in the markets of the world would be much stronger as the possessor of a large store of liquid gold than as the possessor of a corresponding capital in Consols or similar securities. In the former case the Indian Government might in emergency be powerful to help the Indian market. In the latter there would always be the potential danger of their wishing to realise at an inconvenient season. We would therefore urge on your Lordship the propriety of building up a substantial share of the reserve in liquid gold, to be held under as nearly as possible the same conditions as the currency gold in London." They have changed their opinion since?—That is quite evident

7139 What are the reasons for the change?—I am not prepared to state what the reason for their change is, but I am prepared to state that the recommendations which I place at the beginning of my memorandum express their opinion now

7140 Did I understand you aright that you would rather lose the par of exchange than lose interest?—I do not think with 5 millions at present of liquid gold in the Gold Standard Reserve that there is any immediate danger of losing the par of exchange. You might get exceptional circumstances as was pointed out, which might bring forward a difficulty, but it does not appeal to a business man or a business community that money should be locked up in liquid gold which does not bring forward any interest at all when you have first class securities which are as near an approximation to liquid gold as you can have, and they are earning interest

7141 You say that now it is difficult to sell 10 millions of Consols?—I say it is at the moment, but the London market is in a peculiar position, as you know, and the reasons for it are very fairly well known to everybody

7142 There is nothing wrong in India and there is nothing wrong in this country, there has been no war, and yet you think that it might be difficult to sell 10 millions of gilt edged securities. What would be the condition if we were involved in a big war, or if there was a famine?—I should like to say that my opinion was asked whether I thought there would be a difficulty, and speaking from my rather limited knowledge of the London market, I should say there would be a difficulty at the present moment, for reasons which, as I say, are pretty well known to everybody

7143 And you are right?—Ordinarily there would be no difficulty in selling 10 millions

7144 Do you expect a market when the bank rate is higher than 4½ per cent?—We have had securities at a much higher level than they are to day, with the bank rate higher than it is to day

7145 May we not have exceptional times of difficulty? Would you allow exchange to go to 1s 3d again, and let all the wealth of India be disturbed for a paltry amount of interest?—I do not think that we should prepare for ultra exceptional times. The ordinary business man has got a certain amount of capital to work his business on, and he is not going to put that capital in a pot and seal it up and make no use of it

7146 Is not Germany an ordinary business country, is not France an ordinary business country, and is

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not Russia an ordinary business country?—Undoubtedly

7147 They do not deal commercially with their gold, they build up a large foundation of gold?—I am only prepared to give my opinion on it

7148 And what you have stated is your opinion?—That is my opinion

7149 (Sir James Begbie) In the paragraph headed Gold Currency and Coinage (page 598) you describe India as a country accustomed to a silver coinage, but you also refer to the advance which has been made in the circulation of gold coins, especially in Western India. Do you know whether there has been a great increase in the active note circulation?—I do not know. I say that the advance in the circulation of gold coins in India has not been very rapid, and is confined chiefly to the northern and western circles

7150 Can you tell me whether there has been a great increase in the figures for the various banks' clearing houses in India?—I believe there has, but I am not prepared to give you the figures

7151 You have the fact that there has been a considerable increase in the note issue and a considerable increase in the use of cheques, would you not therefore say that India is gradually becoming accustomed to other forms of currency than silver?—Yes, I would

7152 Do you think it is possible that the use of other forms of currency may be extended?—It is quite possible

7153 You are not in favour of coming gold in India, because you think it is not required at present, do you look forward to its being required some time in the future?—It is very hard to say. There is no doubt that there has been an advance in the circulation of gold coins in India to a certain extent, but how far it has gone I am not prepared to say

7154 You also object to the coming of gold because the process will be an expensive one?—Yes

7155 The cost of coming a purely Indian coin would be less than the cost of coming sovereigns, would it not?—That I am not prepared to say

7156 If gold were coined in India and had the effect of reducing the additions to the rupee circulation, could the cost of coming the gold not be set off against the saving there would be in the minting of rupees?—It might be

7157 You also say that if the coming of gold in India is decided upon "it should be in the most convenient form, and that is a sovereign (page 598)" In the case of the silver coinage the coins provided are of the face value of 1 rupee 8 annas, 4 annas, and 2 annas, would you say that these denominations suit the convenience of the Indian public?—Yes

7158 In the case of the note issue the lower denominations have the face value of 5 rupees, 10 rupees, and 50 rupees, do you think that those denominations have been found convenient by the public?—I do

7159 Would you say that a 15-rupee note would be a convenience to the public?—No

7160 But you think a 15-rupee gold coin would be the most convenient value for a gold coin?—Yes, and I give the reason why I say so—because the sovereign has become an international sovereign. The sovereign is not a 15 rupee gold coin, but it is a coin worth 15 rupees, that is the standard which has been fixed for it.

7161 It is not a matter of convenience to the public?—No, not more so than notes

7162 You also say that a 10 rupee gold coin would not be of any use for export, is it not the case that India exports uncoined gold regularly?—I understand that a 10-rupee gold coin would be of no use for export except as gold

7163 But it could be exported?—It might be exported, I suppose, as gold

7164 I asked the question because I understood you to say it would be of no use for export?—My opinion is that it would not be of any material use for export, on the supposition that the 10 rupee gold coin is being coined for circulation in India and for the convenience of the people of India. I do not take it that this 10-rupee gold coin would be one that would be

held up in large quantities like the sovereign or that it would be treated on the same basis as the sovereign

7165 Still it would be useful for exporting gold if you wanted to export gold?—It would be useful so far as its value is represented by gold, I cannot deny that

7166 (Chairman) If I rightly understood your meaning, you think that the 10-rupee gold piece when used for export would rank only as bullion?—That is all

7167 But you think that the sovereign ranks as a coin?—That is so

7168 (Sir James Begbie) I want to ask you about your remark that a 10 rupee gold coin "would tend to destroy the standing of the sovereign", do you mean the standing of the sovereign in the eyes of the Indian public?—Yes

7169 Is there any evidence that the sovereign stands especially high in the estimation of the public in India?—Yes, I think there is. I think that the natives of India look upon the sovereign as a coin of value. It has a certain value, it has a certain standing—it is sentimental perhaps, but it has

7170 Do you not think that they would look upon a 10-rupee Indian gold coin in the same way?—No, I do not think so

7171 You also think that a 10 rupee gold coin would encourage hoarding?—I do

7172 Do you think it is a great advantage to that portion of the Indian public who are given to hoarding to hoard up rupees rather than gold?—No. I meant to have added the word "ornaments" after "hoarding" in my memorandum, but I omitted to do so (page 598)

7173 Do you think the temptation to hoard gold is increased by an excess of rupees in circulation relatively to gold coins?—No, I do not think so

7174 You are aware, I suppose, of the great demand for bar gold in India?—Yes

7175 Do you see any objection to the continued issue of rupees on a large scale in the presence of that demand for bar gold?—Do you mean Government issuing more rupees and taking in bar gold?

7176 I mean the continued mintage of rupees, and the issue of rupees to the public, in the presence of the great demand for gold, which is evidenced by the demand for gold. Do you think it makes any difference?—No, I do not

7177 Does it not come to this, that when Government issues rupees which are largely used to buy gold, the ultimate result is that India uses gold to buy silver for coinage which is largely converted back into gold?—I am not prepared to say that is the case

7178 (Mr Gillan) I notice that in dealing with the question of Council Bills you refer to "the existing system, whereby the Secretary of State sells Council Bills and transfers in excess of his needs" (page 598)?—Yes

7179 We know that recently, having very large balances, the Secretary of State has brought home much more money than he wanted immediately, you do not mean that he should bring home money that he is not going to need at any time, do you?—No, I do not. What I mean is that I consider that as long as the Secretary of State sells bills and transfers to the extent of the full trade demand, that is, the balance of trade, there is no objection to it

7180 But he must foresee some use for the money which he is bringing home by means of Council Bills, must he not? You would not propose that he should bring home money that he is not going to need ultimately at home, would you?—He has always got the gold value for the bills and the transfers that he sells. If the money is required out there by the trade, I do not see any objection to his selling to the full difference between the exports and the imports

7181 If he brought home money in excess of his ultimate requirements, we will say, he would either have to keep that money here in England indefinitely, which I suppose no one would propose, or he would at sometime have to ship that back to India?—Yes

7182 You would not propose that?—No, I would not.

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7183 So that he has really to look after his requirements, and to consider what is the best distribution of his balances between India and England?—That is it

7184 Looking to his requirements and his interests?—Yes

7185 And this advantage which is secured to trade is an incidental advantage in the course of his transactions?—Yes, that is so

7186 With regard to the coinage of silver, you have expressed the wish that these purchases should be made more regular. With that of course the Government of India would agree. The difficulty, as the Chairman pointed out, I think, is that we have such extraordinary variations in the demand, so that the purchases, as I think you said in reply to the Chairman, could not be altogether regular, but there would be intermissions?—That is so

7187 I want to put this to you as a practical question. At the end of the crisis, which the Chairman noticed in 1908-9, we finished up with a balance of 47 crores of rupees. I will ask you to take it from me that what we regard as a working balance is 18 crores, in that case you would not purchase silver when you had 47 crores in hand, would you?—No

7188 At the end of 1909-10 we had 33 crores, still a very large excess. The time perhaps had not come then for a purchase of silver?—No

7189 At the end of 1910-1 we still had 29 crores, would you have started purchasing silver then?—Not unless I saw some reason for it. There is not very much difference between the balance then and the balance in the previous year, it is only a difference of 4 crores. I would not necessarily have started then, unless I saw some reason ahead for it

7190 At the end of 1911-2 we had only 18 crores, and, as you know, the Government of India at that time were making arrangements for the purchase of silver. I take it that on the whole all you mean is that we might have begun a little sooner than we did?—Exactly

7191 But not very much sooner?—No, not very much sooner

7192 About the question of the gold mint, there is one point that is not clear to me. You say the 10 rupee gold coin could not be of any use for export, is it not the general experience that gold coin of different kinds is exported from various countries merely as bullion?—As bullion it is exported. My intention was to say that "a departure to a 10 rupee gold coin would not in my opinion be a sound move as it would not be of any use for export" as against the sovereign

7193 Then you say it would encourage hoarding, this was a point that Sir James Begbie put to you?—Yes, I do

7194 I do not know that hoarding means more than, we will say, the retention in one's personal custody of one's savings or surplus, is that how it appears to you?—Yes

7195 How would the mere constitution of the currency affect the amount of one's savings, do you think that it could add to the total amount in hoards?—My intended meaning was that this 10 rupee coin, being of a less value than the sovereign coin, would fall within the means of a great many more people in India to buy and hoard it or to use it as an ornament, that the fact of its being five rupees less purchasable value would make it easier for a certain class in India to buy for hoarding and ornamental purposes

7196 That is to say, you would have a larger portion of your hoards in gold and less in silver than you have at present?—Yes, and in the same way in ornaments—they would substitute the 10 rupee gold piece for the present silver ornament

7197 Would you agree that the sovereign is too large a unit for the great bulk of the ordinary payments which the Indian people have to make?—In itself, yes

7198 I mean for purchases of grain or cloth or for any ordinary transactions of that kind?—Without the help of silver, of course it is

7199 I mean in the actual payment of something they have bought it is very seldom that they would have to pay a sovereign?—Yes, I should say it is

7200 I do not know if you would be able to answer this. Would you say that the same thing applied to what are larger and more important payments, that is to say, payments of rent? If a man has to pay his rent every six months, would you say that the bulk of those rents would be less than 15 rupees?—I am not prepared to say that. I have no experience of that

7201 Would you say that there is a tendency for the sovereign to be more useful for hoarding purposes and less useful for payment purposes?—I would not like to say that either

7202 Now about the State Bank. You say an institution of this kind is not necessary "at present" what is the meaning of that qualification?—The qualification "at present" means that there are sufficient facilities at the moment to meet all the trade of India in the institutions that are in India. I do not think it is required, I think the Presidency Banks, the Exchange Banks, and the Indian Joint Stock Banks, are quite capable of financing the trade as they are now

7203 You mean that an institution of this kind would not be required until the time, if that time ever comes, when the banking facilities of India are, for some reason, found to be inadequate?—That is so

7204 You refer in the same connection to the paper currency, I think you said in answer to the Chairman, that you consider it has been well managed by the Government Department which runs it?—I do

7205 What has been put to us is that our present paper currency system in India was based on the English system of 60 years ago, that that system has been left behind, that this country, by the development of the cheque and so on, and other countries, have developed newer systems, and that as a matter of fact this system is rather, even in India, out of date?—I do not agree with that

7206 Supposing that some other system were substituted for it, on the analogy, we will say, of the French system or the German system, that is to say, a more commercial and less stereotyped system, would you agree in that case that it would be better run by a bank than by a Government?—I do not think so. Of course a great deal would depend upon what the system was. I consider that the present system of paper currency in India is well managed, and is very suitable for the country, and should be encouraged

7207 What was in my mind was that the present system is a sort of cut-and-dried system, you have got so much in securities, and for the rest you have an actual deposit of coin against every note that goes out?—That is so

7208 You might have a more elastic system in which the circulation of notes would be covered not only by the actual deposit of coin, but it might be by bills or by some other form of security, and in that case it seems that a bank would be more able to deal with it than a Government Department?—That would be so

7209 Sir Ernest Cable, I think, asked you whether you do not think that a State Bank might attract more deposits, is it not possible that the prestige of Government would have that effect?—It is possible

7210 I noticed, for instance, that the other day some of these co-operative societies in the United Provinces had at their district banks been given cash credits by the Allahabad Bank, but the natives felt that this Allahabad Bank, as they call it, was some sort of unknown institution in the background that they knew nothing about. Suppose they were told that they were being financed by a Sirkar Bank, would that not have given them more confidence?—Very likely

7211 You refer to the difficulty of control in managing a central bank for India, is there not already an example of a very far reaching institution in the Bank of Bengal which reaches from Bengal to Peshawar?—Yes

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Mr CHARLES CAMPBELL McLEOD

[Continued

7212 Are there not great differences between Burma, Bengal, and the up country districts?—There are different ways of dealing. I stated that it would be difficult to control, for the reason that it would have to control various parts of India with different customs and so on. To control efficiently an institution like that from one centre would, in my mind, be a very difficult thing indeed. As you say, the Bank of Bengal controls a good deal, but it would be infinitesimal compared to what you would require a State Bank, covering the whole of India, to control.

7213 Do you think that the Bank of Bengal must at present encounter difficulties of this kind, and that they would be extremely accentuated if you added on Bombay and Madras?—Yes I do.

7214 (*Lord Kibracken*) With regard to your suggestion about the financial organisation and procedure of the India Office, I think I may take it that you have not specially studied the constitution of the India Office or the Acts of Parliament under which it is carried on?—That is so.

7215 In making your suggestion of the composition of the Finance Committee, what you mean is that you put that forward as a sort of ideal committee for advising the Secretary of State in financial matters?—That is my point.

7216 I suppose you base that suggestion upon your observation and knowledge of the way in which the Secretary of State deals with financial questions, and of the nature of the work that he undertakes to do?—That is so.

7217 You say that you wish to offer no criticism, but as it is part of the duty of this Commission—I do not know whether you are aware of this—to report on the system and practice of the India Office in dealing with the finances of India, I should like to ask you whether you, bearing that in mind, have any faults to find, or any suggestions to make, on that particular point?—None.

7218 You are satisfied with the way in which the work is done?—Yes.

7219 You think the Secretary of State does not undertake what he ought not to undertake, that he does not go beyond his proper sphere, and that he transacts his work in a business-like and efficient manner so far as you have noted?—I do.

7220 (*Sir Robert Chalmers*) I should like to ask you a question or two on the subject of the metallic portion of the Gold Standard Reserve. If I caught you remarking recently, you, speaking as a business man, said that an ordinary business man prepares against ordinary risks?—That is so.

7221 That is to say, if he happens to be a prudent man of business. There might be a difference, might there not, between the way in which a man of business engaged in commerce would deal with his liabilities, and the way in which a Government with permanent and longstanding liabilities might deal with their business?—There might.

7222 What I want to put to you, in order to get the benefit of your opinion on it, is the possibility of what might be the extreme strain to which the Gold Standard Reserve might be subjected. Shall we take two years of bad trade, famine, and so forth in India, and couple that with a crisis in the London money market, that you perhaps would agree is a fairly black prospect?—Yes, that is as dark as you can put it, I think.

7223 Would you not be disposed to agree that the maintenance of exchange is in financial matters the paramount duty of the Government of India?—It is.

7224 You would possibly agree so far as to say that there is this difference between an ordinary business man and the Government of India, that they should be prepared for the abnormal, the extraordinary risks?—Yes.

7225 They should lay down funds to meet their obligations, which they know is a very practical thing when they have the extreme strain?—Yes.

7226 Would it be your feeling as a man of business, looking at this particular form of business, that in order to be able to meet their liabilities and to discharge this paramount obligation, they might hold an amount of gold which would of course cause a loss of

interest, but that loss of interest would be well foregone in the discharge of their paramount obligation?—If such a severe test came, yes.

7227 Looking at it from the point of view of the Government, you would be prepared perhaps to take a line of rather greater caution than would be taken by a prudent man of business in discharging obligations not so extensive in time as those of the Government of India?—Yes, perhaps.

7228 That would mean a greater stock of metallic gold held in lieu of securities?—That would be the meaning of that, decidedly.

7229 (*Sir Shapurji Broacha*) About the note issue, these notes are now issued by Government and the people have become accustomed to taking Government currency notes, they would not look with the same favour on notes which are issued by a bank, would they?—I do not think so—for a time, at all events.

7230 Having been accustomed to the Government guarantee, they would think the guarantee was reduced if the note were issued by a bank?—Yes.

7231 Would there be a greater facility of promoting the quick circulation of the notes if it remained in the hands of the Government than if they were issued in a bank's name?—I should say so.

7232 Mr Gillan spoke to you about the plethora of rupees when we had 47 crores. Suppose that plethora was brought about, not in response to commerce but against the wish of the Government of India, by the Secretary of State pushing silver, and suppose that about 20 million crores less had been coined, which would have reduced the plethora of 47 crores to 27 crores, if you knew that the plethora of 47 crores was brought about by the action of the Secretary of State, would your opinion in favour of gradually buying silver remain the same?—Yes, it would.

7233 If you had to remit to this country 30 rupees, would you not rather remit two sovereigns than three 10-rupee pieces, because the sovereign in foreign countries would be of greater value than 10 rupee gold pieces?—I would rather remit the sovereigns than the 10 rupee gold pieces.

7234 Because the rupees would be of less value in this country?—Yes.

7235 They would be charged with the exchange and also with whatever it would cost to send them back to India?—Yes.

7236 (*Sir Robert Chalmers*) Generally speaking, would your policy as regards the coinage of rupees be the very simple one of meeting the demand which trade and the population make?—Yes.

7237 (*Chairman*) Sir James Begbie put to you the suggestion that the demand for bar gold in India was proof of a desire for gold currency by the people, do you think that the bar gold which is now taken in such large quantities is in any sense to be considered as currency?—No, I do not.

7238 Have you formed any opinion as to the extent to which it is used as merchandise, that is, for the arts?—No I have not.

7239 Would you think that the bar gold is used mainly either for the arts or for hoarding?—I am not prepared to say, but I should think for both purposes.

7240 If no bar gold went in, and the equivalent amount of gold was sent to India in sovereigns, would it, in your opinion, result in the melting of a great many sovereigns back into bullion at once?—No.

7241 Do you think they would remain as sovereigns?—Yes, I do. I think that some portions of the hoards at present are in sovereigns.

7242 That answer seems to imply that bar gold is not much used for the arts?—I am not prepared to say whether it is or not.

7243 (*Lord Faber*) Do you think that the delightful little bars of gold that we have been shown appeal more to the hoarding instinct of the Indian than the sovereign does?—Possibly.

7244 (*Chairman*) In paragraph 4 of the letter of the Bengal Chamber of Commerce, page 602, they mention that they took exception to the formation, in 1906, of what, until within the last few weeks, has been known as the silver branch of the Gold

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[Continued

"Standard Reserve," and is now known, I think, as the Indian branch. They do not, as far as I have observed, develop that opinion. Do you take any objection to the Indian branch of the Gold Standard Reserve as at present constituted?—Do you mean as regards the 6 crores of rupees?

7245 Yes?—I would prefer to see it in the Paper Currency Reserve than in the Gold Standard Reserve.

7246 If in practical working it is found a convenience to have a small quantity of silver, such an amount as that in India in the Gold Standard Reserve do you see any objection to it?—No.

7247 In paragraph 10 of the Chamber's letter, speaking of the practice of loaning balances and of the possibility of making loans in India, they say the great difficulty is the provision of the necessary security. They add, "That branch of the general cash balance which is held in India is also, like the India Office balances, greatly inflated at present. To suggest a satisfactory method of dealing with it is not easy." But the committee incline to the view that a partial solution might be found if transfers, from revenue to capital expenditure, were governed by principles somewhat less rigid than those that are understood to prevail in the finance department' (page 604). Could you tell me what the committee had in mind in that sentence?—I fancy it is railways.

7248 Could you explain to me a little more definitely?—The Indian community all over India—at Bombay, at Karachi, and at Calcutta—have been urging upon Government to give them more money for railway finance, and the Bengal Chamber of Commerce, observing that large balances are at present held by the India Office, think that they should be partly given out for capital expenditure, such as railways, without being so rigidly held. That, I think, is the correct meaning of it.

7249 It comes to this, that they think the surplus balances ought to be more immediately devoted to capital construction?—That is so.

7250 As regards the question of security for loans in India from the balances there, in the first place may I ask you whether, in your opinion it would be desirable that on good security the Government should, as far as they can, lend money say to the Presidency banks in the busy season of the year in India?—I should say that it would be very desirable up to a certain point, provided they gave the Presidency banks a pull in the rate. At present they will only lend to the Presidency banks at the official bank rate, which I am afraid is not much use.

7251 To make it of use you feel that the banks must have some reward for handling the money?—Yes, I should say 1 per cent.

7252 Subject to that, do you think it would be an advantage to India if these balances could be put at the disposal of the money market in the busy season through the banks?—Yes, to a reasonable extent.

The witness withdrew

At the India Office, Whitehall, S.W.

SEVENTEENTH DAY.

Friday, 25th July, 1913

PRESENT

THE RIGHT HON AUSTEN CHAMBERLAIN, MP (Chairman)

LORD FABER  
LORD KILBRACKEN, GCB  
SIR ROBERT CHALMERS, KCB  
SIR ERNEST CABLE  
SRI SHAPURJI BURJORJI BROACHA

SIR JAMES BEECHIE  
MR ROBERT WOODBURN GILLAN CSI  
MR HENRY NEVILLE GLADSTONE  
MR JOHN MAYNARD KEYNES  
MR BASIL P BLACKETT (Secretary)

MR MARSHALL F REID, CIE, called and examined

7264 (Chairman) You have, I think, spent a large portion of your life in India?—Yes, 25 years.

7253 It was suggested to us by a witness that if that were done, one result would be to enable the banks to hold a considerably larger amount of Government securities, do you think that would be so?—It might not be so in the busy season, it might be in the slack season.

7254 The suggestion that was made was that as they would be able to borrow against securities in the busy season, and as they would be glad to have that investment in the slack season, it would enable them to carry a larger amount of securities, because on the securities they could obtain the money they wanted to work their business in the busy season?—That is quite feasible I should think, and reasonable.

7255 That commends itself to you?—Yes, it does.

7256 Is there anything you would like to add to what you have said in answer to the questions put by the Commission?—I would like to add this on the question of Indian railway finance. I do not know whether I have made it quite clear in my evidence that it would be most desirable that Government should be prepared to state definitely that they would give a minimum sum of, say, 11 or 12 millions for a fixed period of three to five years irrespective of what they would be prepared to allot during these years out of balances. That would enable those who are controlling the railways to make their programme in advance much more efficiently and economically. That is really my main point as regards the railways.

7257 When you say "irrespective of what they would be prepared to allot out of balances," does that mean out of the surpluses of revenue?—Yes.

7258 When you say irrespective of that do you mean inclusive of it?—No. What I mean is, let us have a certainty for five years of 11 millions, then the railway boards can go to work upon that. Probably, the 11 millions is not sufficient, but the balances can be allotted annually without the fixed five years period.

7259 Do you think that the Secretary of State could safely and wisely have borrowed much more for railway construction under the circumstances of the markets in recent years than he has done?—I do.

7260 Without injuriously affecting the credit of India?—Yes.

7261 (Lord Faber) Do you think that the treatment, carried out with the utmost rigour according to the agreement, of the whole of the railway share holders in the past has discouraged investors now to take up Indian railway loans?—No, I do not.

7262 You know to what I refer—the repayment of the Madras railway people at a certain exchange which was held to be very hard at the time, you do not think that interferes with it now?—I do not.

7263 (Sir Robert Chalmers) People would realise that that was a business proposition?—Quite so. That has been forgotten.

The witness withdrew

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MR MARSHALL F REID, C I B

[Continued

with the import and export business, and financing and managing cotton mills chiefly

7266 Most of your time, I think, has been spent in Bombay?—Mostly in Bombay, but partly in Calcutta and partly in Madras

7267 In the memorandum that you have submitted to us (see Appendix XXII, page 571) you draw attention to the size of the Government balances in India during the busy season. We have had it in evidence that the minimum working balance which the Government considers to be required is about 12 crores or 8 millions sterling, and that in order to be sure of having a balance of this amount in November, the Government aims at a balance of something over 18 crores or 12½ millions sterling on the 31st March. Do you think that 12 crores is too big for a minimum balance?—I am afraid I cannot express an opinion on that.

7268 May I take it on the whole that if you were assured that the Government of India had not arrived at that figure by guesswork, but that they had settled it after periodical re-examination of their requirements, you would not be inclined to challenge their decision?—That is so.

7269 Granted, then, that their view is right and that they require 12 crores in November, is it your view that they should find some means of making the extra 6 or 7 crores, which they accumulate from November to March, available for commerce during the busy season?—If it is wanted.

7270 Do you think that the trade of India would require large assistance?—It certainly would at such times as last year and the two previous years, and many others in my recollection.

7271 To what extent do you think, in round figures? Would the assistance they require reach such a figure as 3 crores?—It is very difficult to say. You would gradually feel the effect of money being taken off, and you would gradually feel the effect of it being put on. Our trouble is that it is taken off to such an extent that it seriously hampers our trade.

7272 Do you attribute the stringency, which I think occurs pretty regularly in the busy season, mainly to the fact of the activity of the Government in collecting their taxes at that moment?—I think it must always occur in India that you have stringency in the busy season. That cannot be avoided, I think.

7273 Even apart from the operations of Government?—Even apart from that.

7274 In your opinion, that stringency might be lessened, and it would be to the advantage of the trade to do so, if Government placed at the disposal of trade a portion of their balances?—Yes.

7275 Would you propose that they should lend to the Presidency banks?—I think they ought to have some system on which they lend. I do not think it is much good, unless you can rely on having the money at your disposal when you require it, and to the extent that you require it, as far as it is available.

7276 In what way do you think Government should make it available? Should they lend to the Presidency banks only, or to all banks, or to private borrowers?—My view is that they should have an organisation to which they should lend, or in which they should place their available funds for the use of the country.

7277 You mean a central banking institution?—Yes, practically that.

7278 Would you propose that they should lend to that institution without security, or simply deposit their balances with them, or that they should take security?—They would not require security, I think, if the bank were strong enough—that would be the security—and if they exercised control over the management and direction of the bank.

7279 Is the kind of institution which you contemplate a semi-Government financial institution?—Yes, certainly, with a good deal of Government control over it.

7280 That raises the question of a State bank, and I will return to that later. Suppose that the Commission did not recommend, or did not find it desirable to adopt the proposal for, a State bank, would you still consider it advisable that the Govern-

ment should lend out its balances in the busy season?—I think so.

7281 In that case, would you propose that they should lend to the Presidency banks?—Yes.

7282 Would you in that case ask the banks for security?—If Government were not satisfied with the banks' position, which they control very largely by the Banks' Act.

7283 You are, of course, aware that the Presidency banks have considerable Government balances under present circumstances?—Yes, they have.

7284 It might be, without in any way casting reflections on the security or stability of the institution, that any further sum should be required to be covered by securities?—That might be so.

7285 You do not hold a strong opinion, I gather, either way on it?—No.

7286 In so far as the sale of Council Bills has been carried on, does not that tend to release these balances for the benefit of the public?—It does.

7287 Do you think that the relief reaches the internal trade of India, or is it mainly confined to the export trade?—It can only reach the internal trade through those who have access to the London market.

7288 Do you think that through them it does reach the internal trade?—Yes.

7289 How far do you think the money reaches in the internal trade of India, does it go into the hands of the natives?—It passes from the banks into the hands of the native *shroffs*, as they are called.

7290 (See *Robert Chalmers*.) Would the *mahajans*, the native bankers, get the money?—Yes.

7291 (*Chairman*.) You are familiar with the system of reserve treasuries in India, I presume?—Yes, to some extent.

7292 Do you suggest that it would be well to close them, and to hand over all the balances in them to some financial institution?—Do you mean to say hand them over absolutely free?

7293 Not necessarily, but to make use of the branches of a bank or banks in place of maintaining official treasuries?—I think the reserve should be maintained very strictly.

7294 I am not speaking of the reserve in the sense of the Gold Standard Reserve or the Paper Currency Reserve, I am speaking of the reserve treasuries?—Where Government holds amounts which they think they will require?

7295 Yes. Do you think that if there were a central institution it would be possible for the Government to close the reserve treasuries, and to depend upon the banks to do what is in effect then banking in the different centres?—I think it would, very largely.

7296 The Government has offered, on certain conditions, to make loans to the Presidency banks at busy times even now, but those offers have not been taken advantage of, do you know why?—I was not aware of that. I understood they had refused to lend to individuals on security, that is all I have heard.

7297 It may be a question of the terms. You said just now that, in order to make this proposal work, it would be desirable that it should be placed upon a systematic basis, and that trade should be able to count upon that assistance, I think?—Yes.

7298 Have you reflected what might happen if that had been done, and for four or five years such assistance had been rendered in the busy season, and then, owing to adverse circumstances, the failure of the revenue, or very large expenditure, the Government was unable to give that assistance in a particular year?—If the Government had not the funds available, there would be no point in asking them for it.

7299 What has been suggested to us is that trade might come to count upon that assistance, and that when it failed in a bad year, the last state of trade would be worse than the first?—I am afraid we always count on a good many things which are dependent on other circumstances.

7300 In saying that you ought to be able to count upon that assistance, you recognise, do you not, that there might be times when the Indian Government could not give it?—Certainly.

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Mr MARSHALL F REID, C I E

[Continued

7301 There is another point which has been put to us. What do you take to be the busy months of the year in which this trade demand arises?—I think in Bengal about October to December, in the west about January to March.

7302 It has been suggested to us that Government has no surplus balance to speak of until about the middle of January?—That might be so sometimes.

7303 In that case the relief which they could give would be partial?—Yes.

7304 I presume that, provided the relief be given, you would not mind very much from what source the funds were derived?—No.

7305 Have you ever thought whether they might be advantageously drawn from the currency reserve by some increase of the fiduciary portion, instead of from the Treasury balances?—I have not considered that.

7306 A suggestion has been made to us that the fiduciary portion of the note issue might be raised, and that the whole of the amount allowed to be in a fiduciary position should not be permanently invested, but that a portion of it should be kept for loaning out on security in the busy season, would that meet your view?—I am afraid I have not considered that point at all.

7307 You say in section A, paragraph 12 (page 572), it is remarkable "that the balances and currency of India should be under the control of authorities in India and London who may be said to be almost isolated from the money markets, and the chief commercial centres of India." Where do you think the control ought to be placed?—I think it ought to be in the market itself—in the money markets and the commercial centres.

7308 Can you translate that into practical measures for me?—We come back to this State bank question again.

7309 I suppose Calcutta would be the chief financial centre of India, would it not?—Calcutta and Bombay are both very large centres.

7310 But you must have your head office in one or the other?—Probably, yes.

7311 In the past the control has practically been centred in Calcutta?—It has been.

7312 Merely as a matter of geography you could not use a better place?—I do not suppose you could.

7313 It is not in your mind, supposing the Government of India had remained at Calcutta, that the Finance Department ought to have been centred else where in order to be in closer touch with banking and commercial centres?—No.

7314 Now I come to the question of a central bank. Will you tell me shortly why you make the proposal to have such a bank, what are the advantages which you think India would derive from it?—In the first place, the control of the finances would be in the commercial centres, where the money is wanted and where large financial operations take place. They would control the balances and the reserves, and make them available, as far as might be desirable, to trade. No doubt they would guide the people as to the best form of currency they ought to use, and, if it were paper currency, they would take steps to popularise it. I think it must be recognised that the conditions in India have changed a good deal of late, and that we are coming in one way to rather a critical stage. The people have become very much wealthier during the last few years, and they are beginning to learn to use their wealth. I do not suppose at any time they wanted more guidance in that matter than they do at present.

7315 Do you think that they would get the guidance better from a central institution than they do at the present time from the Presidency and joint stock banks?—Certainly I think so.

7316 For what reason?—It is nobody's particular interest to teach them now.

7317 What you want to teach them, I suppose, would be to bring their money out of the hoards?—That is so.

7318 And to turn it to profitable uses through the banks?—Yes.

7319 Is not that very much the interest of the existing institutions?—It may be their interest, but I do not think it is one of their avowed objects.

7320 India is a very big country, is it not?—Yes.

7321 *Prima facie* I should have supposed that, with all these varying circumstances in the different parts, local institutions would be more likely to get at the people than one great central bank?—But I think you could use your local institutions equally well under central control.

7322 You say in your memorandum that you do not propose to attempt to construct the organisation, but I want to press you a little to help us in that matter. Do you suggest that the three Presidency banks should be amalgamated?—Yes.

7323 It is not an entirely new institution that you suggest should be superimposed on them?—No.

7324 But they are to be amalgamated as the foundation of a new one?—Yes.

7325 What sort of capital do you think such an institution ought to possess?—Then capital and reserves at present seem to be sufficient for their purposes. I do not think I can go beyond that.

7326 Therefore, in proposing a central bank, it is not with a view of increasing the banking capital of India, but in order to make the best use of the capital which now exists?—That is so.

7327 I suppose you contemplate that they would have local boards in the different Presidencies?—Local boards, very much with the same powers and the same duties as they have now in each Presidency bank.

7328 With a central board somewhere advising the whole?—Yes.

7329 Where would you think of placing the central board?—One would like to have the constitution of the central board such as would represent the whole country as far as possible. That being so, I do not think it matters very much for what reasons you choose any particular place, so long as this is effected.

7330 In order to make the central board representative of the whole of India, you would have to take men in close touch, I suppose, with the trade and business of places very remote from one another?—You would.

7331 Wherever you put the head office of the bank, could you, in the circumstances of India, find directors who possess the local knowledge which you have made a condition, and yet who could afford to give the time to come to that centre whenever wanted?—I am afraid I regard the directors as not nearly so important as the executive, and therefore, if the directors could be kept in touch with the executive, I think that a great deal could be done in the way of letting the board represent the whole country.

7332 You do not contemplate in fact that the board would meet weekly, or anything of that kind?—No.

7333 The real management and control would be in the hands of certain executive officers?—Certainly.

7334 The general managers?—Certainly.

7335 You propose, I think you told me, to give to the bank the management of the currency, would you entrust them with the management of the sale of Council Drafts?—Yes.

7336 Would you allow them to deal in exchange generally?—No.

7337 Would you give them a London office?—Yes.

7338 Would they have the whole of the Government balances?—Yes.

7339 Do you think that a bank which was formed merely by the amalgamation of the capital and reserves of the existing Presidency banks would be of such strength as to justify the Government entrusting it, without security, with such a very large sum?—I have said that I have rather an open mind on that. All I say at present is that the banks' funds are sufficient for their requirements.

7340 Do you contemplate that the Government would have any control over the operations of this bank?—They would certainly have some, but I think their main control would be perhaps in nominating all the directors of the central board, and possibly the managers of the branches.



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Mr. MARSHALL F. REID, C.I.E.

[Continued

7341 Do you think that the Government should nominate the directors of the central board?—Certainly

7342 Not that the shareholders should?—No. If the Government are going to put their funds to such an extent into the hands of a bank, I think the Government should have the right to nominate the men who will be the controllers of that bank.

7343 In that case you will agree with me that the responsibility of the Government will be very heavy. If they nominate the directors who have the supreme control of the bank, the Government will in fact be themselves responsible for the safety and security of the bank?—They have got all their funds in the bank. I think Government are quite capable of taking the responsibility, and of carrying it out exceedingly well.

7344 If the Government is to play so large a part in the institution you contemplate as you have just described, is there a very great difference in fact between what they have to do now and what they will have to do then?—I think the difference is very great, because the people who control the finances at present, we, as merchants, never see, and we are not in touch with them.

7345 Would not the real difference be that the Government would be working through bank managers instead of through officers of the Finance Department?—On the spot, yes.

7346 I suggest to you that it even comes to this, that the managers of the bank would in fact be Government officials, though possibly trained in a different way, and no doubt entering the service through a different door. To all intents and purposes the men on whom the real practical responsibility would rest would be as much Government officials and as much responsible to the Government of India as the members of the Finance Department are now, would they not?—No, I think not.

7347 The directors of the bank would be nominated by the Government?—The Government would nominate to the central board.

7348 The control of the managers would be entrusted to the central board so nominated?—That is so.

7349 And the managers would act under the supervision and instruction, as far as given, of that central board?—The local managers would.

7350 And even the head manager, would he not?—I take it he would be one of the board, and a very important member of the board.

7351 Then in that case, the head manager or managers would also be nominated by the Government if he or they were members of the central board?—Certainly.

7352 Except in name, what would be the difference between their position and that of a Government official?—The manager of a bank would be absolutely independent. He would be working with his colleagues who were nominated by, but who were not under the orders of, the Government.

7353 But the Government could displace him at any moment subject to any agreement that was made, could they not?—Yes.

7354 If the Government were dissatisfied with a manager, that dissatisfaction would find expression by the nonrenewal of the Government on the central board?—Yes.

7355 Who would remove the manager?—Presumably.

7356 Why I am pressing you on this is because it has been put to us that, if there was any advantage in a central bank, the first and greatest advantage would be that it would relieve the Government of much of its present responsibility, but the organisation which you sketch seems to me to leave the Government at one or two removes still responsible for the management of the currency, for the sale of Council Bills and Drafts, and for the management of their balances, and to superimpose upon that responsibility a responsibility for all the ordinary banking business of India?—I do not think I quite regard it in that way. I think, having appointed them, they then do the work.

7357 I am going to take what is, I hope, an unlikely supposition. Suppose they managed the bank rashly

and landed it in difficulties, could the Government of India be indifferent to what would befall such a bank?—Certainly not.

7358 The people of India would look to them to maintain the bank?—Certainly.

7359 Do you think it would be regarded by those who have entrusted deposits to it, or who are otherwise its creditors, as having a sort of State guarantee behind it?—I do not think so.

7360 I think you do agree that at any rate it would be so intimately associated with Government that Government could not allow it to pay the penalty of its own mismanagement?—In the Government's own interest, yes.

7361 I think you did say to me that, provided there were local boards, the local interests would not suffer through the centralisation of the supreme power in a single place?—On the contrary, I think they would benefit, because they would have a direct officer to go to always available, instead of having to approach an officer of Government who might or might not be available.

7362 You told me that in your opinion this bank ought to have a London office. Would you propose that the London balances of the Secretary of State should be kept with this London office?—I think they would be under the control of the bank in India. They would place them wherever they thought desirable and expedient.

7363 As regards the management of the balances generally, apart from your desire to see them entrusted to a central bank and made available in that way for trade, have you any criticisms to make on the recent action of the Government of India or the Secretary of State?—No.

7364 Turning now to the Gold Standard Reserve, I think you approve of the establishment of that reserve?—Yes.

7365 But you think that the measures taken up to date have not gained public confidence?—That is so.

7366 And that you attribute in part to the experience of 1907 and 1908?—I do.

7367 In section B, paragraph 5 (page 573), you speak "of the uncertainty as to whether the authorities would take the steps they eventually did to maintain the exchange level at that time" what do you refer to specifically there?—They agreed to draw bills on London at 1s 3½d. I think the notice agreeing to that is dated March, 1908.

7368 At that time the Government of India and the Secretary of State were dealing with certain conditions, as it were, unfamiliar to them, were they not?—They were.

7369 Do you think there is still uncertainty as to whether they would use all their resources now to maintain exchange if exchange was threatened?—I think they would use their resources. They always intended to use their resources, and they thought their general resources were strong enough.

7370 May I take it that you yourself do not share the suspicion that "the maintenance of exchange is at times subordinated to other interests," though you feel that other people, or the Indian public generally, are not absolutely convinced that it is not so?—I am not convinced.

7371 You agree that it is probable that they would use all their resources for the maintenance of exchange?—But they might cause very heavy loss to us all before they did so.

7372 By acting too late, do you mean?—Yes.

7373 Will you tell me what you mean by "the suspicion which undoubtedly exists that the maintenance of exchange is at times subordinated to other interest in the handling of Council Drafts"?—Shall I take a specific instance?

7374 If you please?—Rightly or wrongly, the general view which one has heard expressed in Bombay this year when Councils were being sold in very large quantities and very much in excess of the Budget, was that they were not being sold with any idea of the maintenance of exchange, but that they were being sold rather in disregard of exchange.

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7375 The Secretary of State had large sums which he wanted to transfer over here?—Yes

7376 Do you think he was wrong to transfer them?—We are getting on to rather another point

7377 Do you mind answering that question? I will put it to you rather differently, as perhaps you do not quite see what I am pointing to. The Secretary of State has a continuous need for new capital for development purposes in India, and a large portion of the expenditure is incurred in England for railway material and so forth?—That is so

7378 If he has unexpectedly large surpluses in India, can he use them better than by bringing them home to meet that expenditure?—If he has definite expenditure in view he cannot

7379 Even if he has not at the moment definite expenditure in view, but foresees that his future requirements will be large, does he not act wisely if he brings the money over when he can?—He does

7380 Then I do not quite see why you criticise him for having sold Council Drafts freely when the money was available in India, in order that he might bring it to this side for future use in that way?—Is there any reason to suppose that he did urgently require money then, and could not equally well bring it home later on? I have not got before me the figure of his gold balances

7381 Would your criticisms be met, do you think, if it were possible to put the management of the Gold Standard Reserve under statutory conditions?—I think it would be better on the whole

7382 In such a case, what are the kind of conditions that you would like to see laid down so as to insure the confidence of the Indian public in the management of the reserve?—I should like a certain proportion in gold, and I do not mind how large a proportion in short loans and such things in London. I have no definite idea as to the proportion

7383 In mentioning those two forms in which the reserve might be held, do you desire to exclude the Secretary of State from holding securities without any time for repayment?—I distinguish between the two

7384 In the meantime you are anxious that the whole profit of the rupee coinage should go to the Gold Standard Reserve?—That is the ideal

7385 On the subject of gold coinage and the opening of a gold mint, I think you do not yourself favour either of those proposals?—That is so

7386 I gather from your memorandum that your view is that gold coinage is wasteful compared with other methods of currency?—That is so

7387 And that gold in reserve is much more effective for the maintenance of exchange than gold in circulation?—Yes

7388 Do you think that in a time of crisis gold would come out from the hoards to support exchange?—I think it would be the very last thing to come out, because it is the one they would hang on to longest as being the best

7389 You yourself suggest to us that some serious attempt should be made to attract the mass of unproductive wealth from its hiding places?—Yes

7390 That would no doubt be a very desirable thing to do, but what have you in your mind as the steps which the Government might take? Is it anything more than the belief that you have already expressed that the establishment of a central bank would educate the people?—I think the effect of the organisation of a State bank would be to teach the people to bring out their money and to use their money

7391 I suppose in many cases these hoards are held by people who are too far away from any bank, or any place where a bank is likely to come, for a bank to take the place of a hoard with them?—The treasuries are pretty widespread over the country. I do not think there is any place in India that is inaccessible

7392 I think you suggest something might be done by raising the limit for Savings Bank deposits?—I have since learnt that that has recently been done

7393 And you do not suggest that it should be carried further?—I think not at present, it has been raised considerably

7394 (Mr Gillan) Are you referring to the raising to 500 rupees?—Yes, in 1912 I think, when it was raised to that from, I believe, 200 rupees

7395 (Chairman) Now I come again to a question which I touched upon just now in another connection. In section D, paragraph 12 (page 576), you criticise the practice which has recently been resorted to of providing for railway capital expenditure from revenue, or from accumulated cash balances which, as you say, is practically the same thing. I do not quite follow your objection there. Do you agree that India can hardly have too much railway development?—I do

7396 And that it is desirable that the authorities should devote as much money as they can to pressing that development forward?—Yes

7397 I suppose you would like to see the Indian Government and the Secretary of State adopt and carry through a steady policy of development?—Yes

7398 Irrespective of the fluctuations in the Budget?—That is the whole point

7399 Supposing they had done that, and had then got an unforeseen surplus of, let us say, 2 millions, could they spend that surplus better than in relief of borrowing for capital expenditure or in increased capital expenditure?—For relief of borrowing?

7400 Yes, I will put it in either of two ways. Suppose you had a programme of 10 millions a year, suppose that of that you hoped to carry through half out of revenue and that half remained to borrow—I am merely taking these figures for illustration—then in a given year you find you have got a surplus of 2 millions, and the question arises what should be done with that. You might in that year carry out a programme of 12 millions instead of 10, or you might borrow 3 millions instead of 5.—I would borrow 3 millions instead of 5. You cannot change your programme, I fancy, during the year

7401 You might keep the money in your balances for that year, with the hope of spending it as an addition to the 10 millions of the next year?—You might

7402 Would you object to that?—No, I would not object to that

7403 Provided that they are unforeseen windfalls, and provided that they are made available as rapidly as possible for railway construction, you would not criticise that policy?—No

7404 The essence of your criticism is that there should be a definite programme which should be irrespective of the fluctuations of the Budget?—That is my point

7405 Do you think that more money could be raised in India for capital purposes than has been raised in past years?—I think so, certainly

7406 Would you raise it in rupee securities?—Yes

7407 In your memorandum you suggest the issue of railway bonds. I am not quite certain whether you mean short dated bonds?—No, I mean the ordinary debentures, or such like

7408 How much money do you think you could get in India for these purposes?—There is no end to the amount on which we could count

7409 At what rate of interest?—If they go on getting wealthy as they are doing, I do not know how low you will get it

7410 Who are the people who will take such loans as are now issued?—Very largely, to begin with, the Presidency banks, but increasingly up country, I consider

7411 You think they will be taken by the Presidency banks or other banking institutions in the first instance, then will they be passed on to the small people or will they be passed on only to the big people, do you think?—I have no very definite information, but I gather that they will be passed on to both small and large

7412 Do you think there is a growing tendency on the part of the Indian people to hold securities of that kind?—I believe so, and I believe there is an enormous amount of money that will be available if can be got at

7413 Do I understand you to think that it would be possible, with more activity perhaps I should say in

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[Continued

advertising, to induce a good deal of money to come out of the hoards, and to come into securities of that kind?—I think a very great deal

7414 We have it in evidence from one witness that both the Mohammedan and Hindu laws of succession and customs, for different reasons, cause a good deal of gold to be hoarded?—I have no experience of that

7415 Do you desire to recommend the creation of any new class of securities in India differing from the rupee securities that have been issued in the past?—Possibly, but it is a very complicated subject, which one could not express an opinion on without a great deal of enquiry

7416 You would like to leave that to the managers of the State bank?—Yes

7417 (Lord Faber) Referring again for one moment to the central bank, if a central bank is formed, and that bank makes use of large Government balances, at present, at any rate, that bank must be practically a Government bank, and, therefore, would not relieve Government officials of their great responsibility, would it?—I hold that, having transferred the management of the bank to officers whom they approve, Government would then have fulfilled its duty

7418 The officers who would be really officers of Government, and not officers of the bank, would they not?—They would be officers of the bank nominated by Government

7419 But the Government would be the central figure, because the Government would supply a great deal of the money?—Yes, and that is why I say they must nominate—because they supply the money

7420 The difficulty, as the Chairman has said, is to many of us that, although we perhaps should like to relieve the Government of what may be more properly called banking business, at present we think that the preponderating influence of the Government money is so great that we cannot give them that relief. Is that your opinion? Apparently you think the Government can be divested of authority although the Government would find most of the money?—Yes

7421 Do you think that when the country advances further and becomes richer, the Government balances may not be such a preponderating influence, and then the Government supervision would not be so necessary? What is your opinion of that? This is a growing country, is it not?—Very much so

7422 Therefore, I say once more that when you get the condition of things that the Government money is not a preponderating force, then you may get outside commercial aid which at present you can not get. At the moment a central bank would be practically a Government bank, would it not?—To some extent

7423 In answer to the Chairman just now you made an interesting statement to the effect that you thought railway debenture bonds would be greedily taken up in India?—I think they would

7424 Do you think that, as the Chairman said, the way to get at the hoarded wealth of the country is to offer the public railway bonds at a fair rate?—I think so. They have shown already in the way they have taken feeder railway shares that they do like that sort of investment. One small company was oversubscribed before it actually asked for subscribers

7425 (Sir Robert Chalmers) What would be the relation, in your opinion, between the resources of the bazaar and the money market in India? Is there any relation, if so, is it a close relation, or how would your experience lead you to explain it? Does he borrow from the Indian money market as we have been speaking of it?—He borrows, I think, from the bank. The bunnas go to the bank to get their finance, which they then spread up country.

7426 It is from the European money market that some part of their funds come?—I think so, largely

7427 Do the rates they charge bear any resemblance to the rates they pay?—That is largely a matter of to whom you lend, is it not? The rate depends on the borrower a good deal. To a good borrower, I suppose, they would charge, perhaps, 1 per cent. more than they can borrow at, and to a bad

borrower, perhaps, 5 or 10 per cent more than they can borrow at

7428 Do you think it is within those limits, and do you think there is really an intimate relation between what I may call the native market and the European market for money?—Yes, but the substantial borrowers are not very numerous, and, therefore, the rate in the bazaar generally is high

7429 Coming now to the question of the State bank, is there any movement on the part of the Presidency banks to be amalgamated?—Not that I know of

7430 Do the public clamour for it?—The matter really had not been raised before I left India. I left India in April last, and I have heard nothing of it since then

7431 (Sir Ernest Cable) Did I understand you to say that the bunnas would actually charge the ryot only about 1 or 2 per cent more than he pays to the shroff?—I said up to 10 per cent more in the case of the bad borrower, or even more

7432 Is it not the fact that at the present time the ryot has to pay about 25 per cent to 30 per cent for his money?—I should not wonder

7433 In view of this, do you think that a State bank would relieve the situation? Do you think that, by financing agricultural societies and so forth, it might be a benefit to agriculture and to the country at large?—Yes, and it would make money circulate more freely, through having branches up country where the treasures are now

7434 You spoke about educating the people do you mean by that that a State bank would educate the people in the use of notes and cheques? Are you thinking of the ryot?—The ryot, if he had any money, and the rather better class, the small trader for instance

7435 You said just now in reply to a question of Lord Faber's that you thought any amount of money could be borrowed in India, would that be the case at the present rate of interest, 3½ per cent?—3½ per cent or 4 per cent

7436 You said that increased borrowing would bring out the hoards, you expected that the hoards would come out more and more in response to these loans?—The loans are not there. If the people were taught that they could get good security, they would then lend on that good security and make money thereby. That is my view

7437 The hoards that you have referred to, I imagine, are the hoards held by the princes, not by the peasants?—I think all the hoards—princes and peasants', workmen's, and everyone who has got a few sovereigns, or who has got his gold ornaments, or who has got his rupees or currency notes. It would be a good thing if they were taught, or had a chance of learning, how to utilise their funds

7438 With a view to this, I suppose it would be a very good thing if the denominations of the present Government paper were made smaller?—Yes

7439 That would be a useful suggestion from your point of view?—Yes

7440 You made some remarks in answer to the Chairman, with whom I think you agreed, to the effect that the Government would be responsible for the central bank?—In the event—

7441 In the event of disaster I think you said the Government would be responsible?—I think the Government of the country is more or less responsible, is it not, to keep itself and banking concerns together. It would be no greater responsibility

7442 (Sir Robert Chalmers) Do you affirm that about this country—that the Government is responsible for the Bank of England?—I am not a banker

7443 (Sir Ernest Cable) In every country where there is a State bank the Government is very much interested in the welfare of the bank, of course?—Very much

7444 So it is not a novel position?—No, the prosperity of the country is involved in the bank

7445 And the Government of India are also involved in various other undertakings, such as the port trusts. In these cases, I think the Government,

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although there is no actual responsibility, still have a moral responsibility, and they could not possibly allow any port trust to come to grief?—Quite so

7446 They have the same responsibility in various similar undertakings?—Quite so

7447 With regard to the situation of the bank, I think you said that Calcutta ought to be the place. Supposing there were very great local jealousies to be overcome between the various Presidencies, would you see any objection to the head office or the head directorate being in some neutral centre?—It must be in a commercial centre

7448 Do you think it must be in a commercial centre if each of the local boards had as full powers to carry on as existing boards enjoy, let us say?—Yes, otherwise I think it would be out of touch with the markets, which is the whole point.

7449 You want the central board also to be in touch with the market?—Certainly. If a difficult situation arose, you want at once to communicate with your manager, and get his decision at once

7450 Let us take the present boards in each of the Presidencies. Supposing they were continued with the addition of one Government officer on each board, for example, the Accountant-general of each Presidency that would secure Government supervision at each of those branches, would it not?—I do not think Government need worry much about the local boards. Boards would have certain statements put before them and certain matters referred to them, but the management would be in the hands of the manager, who would, according to my view, if he were the manager of a local branch, have been appointed with the Government's approval, anyhow

7451 The central board might be composed, let us say, of a chairman, who might be an English banker of eminence who would be attacked by a large salary and assisted by a managing director, who might be promoted from one of the branches in the meantime. Associated with them might be the Financial Secretary. That would give you the Government atmosphere that you suggest, would it not?—That would

7452 And it would not be a preponderating influence. If that central board travelled from Presidency to Presidency from time to time, much as the present Minister of Finance and Commerce does, would that not meet your view that it should be in touch with commerce? The central board could travel from their central office, wherever it might be, once or twice every month round the presidencies?—I think that would be rather difficult, and rather a waste of their time

7453 The present Minister of Commerce travels a good deal, does he not? He keeps in touch with the whole trade of the country by travelling?—Yes, he travels round like that. I do not think they would require to travel if they had their main office in one place. They would work from there, and when the busy season was over in Calcutta they could go to Bombay, and stay there during part of January to March, and then go to Madras, and so on

7454 I was only trying to get over the difficulty, which, of course, will be inevitable in making this amalgamation, that there may be local jealousies as to where the head office may be situated?—I think they will pass over in a year or two. I should hardly bother about the local jealousies if you are going to run a bank for the sake of India

7455 (Mr Keynes) The principal criticism that we have heard against the central bank is the difficulty of getting suitable directors, and, secondly, the difficulty of adapting the practice of the central institution to the needs of the localities. I should like to take the second of these points first. You favour, I think, local boards?—Yes

7456 You are a director of the Bank of Bombay now, are you not?—I was till I left India

7457 So that you know what functions the board of a Presidency bank actually performs?—I do

7458 Would your new local boards differ substantially from the present boards of directors?—I should say in no respect whatever

7459 Could you tell us a little more about what the functions of the boards are in relation to the

executive? Do they actively interfere, or are they rather channels of commercial communication?—I suppose the main functions of the directors are consultation and general supervision. They consider and discuss the various statements and questions which are submitted in ordinary course, they advise on points brought up by the executive, and inquire as may be necessary into matters affecting the policy and business of the bank. But it is not a part of their business to interfere in the daily work of the bank's executive

7460 If there were to be a central bank, you do not see any reason why the local boards should behave any differently from what they do now?—No

7461 Who would appoint the local boards?—If you had public shareholders I should think they would want to have some voice in the appointment. My suggestion would be that all shareholders who wanted to vote for directors should register in a certain district, and that they should appoint the directors for that district, that is to say, if you had some 500 shareholders in the Bombay Presidency, they would vote for the Bombay directors, and so on in Bengal, and so on in Madras

7462 It was that which you had in your mind when, in answer to the Chairman, you said that local boards should be appointed by the shareholders, but the central board would be wholly nominated by Government and would have overruling powers?—That is my idea, but you would not expect a central board to interfere with the local working of the bank, except on broad principles

7463 Would this central board which is nominated by the Government include commercial people or not?—If possible it would include one or two

7464 Would it be a small board or a large board?—A small board, I should say

7465 With a small number of Government representatives and a small number of commercial representatives?—Perhaps five—two Government representatives and three traders

7466 With what sort of questions would it chiefly concern itself, as distinct from the local boards?—It would have to deal with the currency generally. A point I make a great deal of is the education of the people as to currency, and the working out of the policy that should be pursued in the different branches in regard to these matters. Of course it would have to lay down to what extent the banks should be interested in any particular industry or any particular investment, and I presume it would have to deal with the funds of the bank as regards movements to London and backwards

7467 Would it have a bank rate policy for the whole of India?—I am afraid I do not understand the expression

7468 Would it determine what sort of bank rate ought to be established at different times all over India and aim at making this effective, would it do that?—It would do that, but it would not necessarily be the same rate in every town

7469 I suppose that the central or head office would have no direct dealing with the public at all?—No

7470 It would merely be the seat of authority over the local offices?—That is so

7471 So the actual locality of the head office, so far as the public is concerned, would be of no importance?—No, excepting that it should be in a large centre

7472 The chief importance of where it is located would be in the fact that if it is at Calcutta it would be rather difficult for Bombay people to be there, and vice versa?—Yes

7473 If you had a head office which has no direct dealings with the public, but is merely a ruling authority, would it be difficult, do you think, for it to move about?—I think it might be very inconvenient to move about freely

7474 I did not mean, of course, that it should have a habitation as it were in several places, you mentioned, I think, earlier in your evidence that the busy season in Bengal was on the whole from October to January, and in Bombay on the whole from January to March?—Yes

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[Continued.]

7475 Would it be feasible for the board to sit in Calcutta during the first three months and in Bombay during the next three months?—I think so. But if Calcutta were the centre, they naturally would not want to be so long in Bombay as in Calcutta. They would not aim at dividing the time in that way.

7476 The effect of the central board on the local board in the place where the central board was situated might work both ways. If the central office is in Calcutta, you might say that would leave less independence to the Calcutta local board, or you might say it would put the Calcutta local board in a better position to impress its views on the central board. Which of those views do you maintain?—I regard the local boards as being not interfered with, but as having the advantage of referring matters for immediate decision and getting an immediate decision from the central board; so that whether they are in Bombay or Calcutta is immaterial to my mind.

7477 Would you have more than two local boards? Would you, for instance, think of setting up one in Rangoon?—I think very likely.

7478 And one in Northern India, or not?—I doubt it. I think that is a matter on which you should move slowly, according to experience.

7479 You might think in course of time that it would be advisable to have a new local board somewhere else?—You might think so.

7480 I come now to the question of Government responsibility. You do not advocate the bank so much as a way by which the Government would get rid of its responsibilities, but as a policy involving the improvement of the machinery through which it exercises them?—That is my whole point.

7481 The Chairman suggested to you that in a sense the executive officers of the bank ought to be regarded as the servants of the Government, obviously, in a sense, the Chairman's suggestion has to be answered in the affirmative?—Yes.

7482 In what, in your opinion, would the distinction consist, is it that the officers of the bank are to be outside the machine of Government?—Yes.

7483 So that, although the executive officers would be subject to dismissal, they would not have to transmit their individual proposals for sanction in the way in which Government officers have to do, is that your point?—Yes, that is my point; they would not have to refer to Government on any point which arises unless they choose.

7484 The bank management would act on its own without reference to the Viceroy's Council, although it would be watched by some representative of the Viceroy's and be subject to dismissal by him in the event of very grave misbehaviour?—That is exactly my view.

7485 (Sir Ernest Cable) Do you suggest that the executive of the central bank should be dismissible by Government?—If they can be nominated, I think they can probably be dismissed, but that is a matter of agreement, is it not, between the bank, the Government, and the servant? I should certainly like someone to have the right to dismiss an inefficient manager.

7486 (Chairman) I think in answering my questions you indicated that you did not think the ultimate control should be left to shareholders?—Certainly not.

7487 (Mr. Keynes) I suppose the position would be that the management would be subject to dismissal by the central board, and the central board would ultimately be under the orders of the Government?—In that respect, yes.

7488 So your main point is that you want some officials existing as a separate entity from the ordinary Government machine, and able to act on details without reference to it, is that so?—That is so.

7489 I also understand that on the board of directors, while the directors would be nominated by the Government, some would not be Government officials but would be commercial persons?—Yes, I should prefer the majority not to be Government officials.

7490 Looking at the proposal mainly not from the point of view of the Government, whether it would

lessen or increase its responsibility and so forth, but from the point of view of the country and its general development, what have you to say about it?—I think it would make all the difference in the world if the bank made its main object to develop the country and to make the country progress, as I believe it can do. As I have said before, the change in the conditions in India during the last few years has been very remarkable. I quoted a figure in my statement of some 60 millions in gold going into India, simply on account of the balance of trade. That was sheer profit. It seems to me that that money should be got hold of and used for the good of the country, and it seems to me that a bank such as we are speaking of would be the body who would do it. By getting hold of the money, I mean getting people to invest their money in railway and other concerns and so making the country progress, as it is bound to do. But if something is not done, I do not know what the effect will be, if money is going to go on pouring into India and sinking out of sight, and lying there, it is impossible to say what the effect will be not only on India but on international finance.

7491 Is it your opinion that such a bank would attract any new classes of clients which the Presidency Banks do not attract?—I take it that it would have its organisation much more widely spread, and therefore it would get at people who are now out of reach of the banks.

7492 Do you mean that if it opened branches wherever there is now a Government Treasury, it would be having five or six times as many branches as the Presidency Banks now have?—Yes.

7493 Is there any prospect of its being worth the while of the Presidency Banks to open branches at all widely?—I am afraid not.

7494 Do you think that this matter of getting branches widely spread all over the country is absolutely contingent on the establishment of a State bank?—That is my opinion.

7495 I think you suggest that one of the duties of a State bank was to popularise investments and the use of paper currency?—Yes.

7496 Is that also contingent on having this great number of branches all over the country?—It would be a part of it, and a very important part.

7497 Would it be possible, do you think, for these numerous branches to push small Government Bonds with coupons which were payable at the branch?—Yes.

7498 They could push them upon the small investors?—Yes.

7499 So that the issue of Government loans, and so forth, to small investors would be part of the business of this bank?—Yes.

7500 In your own mind, when you are advocating this bank, are you thinking mostly of the details of the machinery of Government and so forth, or are you thinking chiefly of the various commercial activities of the great branches of trade all over the country?—As I have said, I think India is changing rapidly, and that we have in front of us a condition which we have never had before, and possibilities which we have never had before. Of course that is only my own feeling and my own opinion, and I may be optimistic.

7501 I have one other question not connected with a State bank. I understood you to say to the Chairman that you did not feel perfectly secure that the Secretary of State would always maintain exchange at 1s. 3<sup>3</sup>/<sub>4</sub>d. ?—That is so.

7502 Would a formal notification by him offering to sell Council Bills without limit at that rate increase your confidence?—It would.

7503 Would it actually influence you in your business?—It would.

7504 In exactly what does your doubt consist?—Are you doubting whether he would be able to support exchange, or whether he would vacillate as to the exact figure at which he would support it?—From experience our troubles as to when he would support it. Notwithstanding his support, we have suffered very heavy losses.

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[Continued

7505 Then you are hesitating not about his resources but as to his judgment?—I suppose so

7506 It is not that his resources are insufficient?—Conditions have recently changed to the extent that he has very much more gold in reserve altogether as against 1908. I suppose he has in the Paper Currency Reserve some 25 or 30 millions more in actual gold than he had then. So one does feel safer to that extent than one did before.

7507 It is not his ability to support exchange that you doubt, but as he is not bound to a figure, you do not feel certain of the figure he would take in the next serious crisis?—That is it.

7508 So your hesitation would be met almost completely by a binding notification?—And by a declaration of policy as to the lines he was going to follow in working his reserves and building up his reserves.

7509 Having made that declaration, you would not wish him to increase his reserves much beyond their present figure, I take it, or would you wish that also?—I think there are now some two millions in gold, and I should like to see very much more than that out of the 22 millions. We have been rather brought up in Bombay in the idea that we ought to have the whole lot in gold. That is an ideal, and I think beyond what we will ever get, but we certainly want more than two millions in gold and in liquid cash. On that point I should like to repeat what I have mentioned in my memorandum. To talk of limiting the reserve is very disturbing and it is not very helpful, because we have heard of 10 millions, 15 millions, 25 millions. Presumably, if my idea of development goes on, it may be 30 millions or 35 millions or 40 millions in the next few years. Such ideas coming from Government officials in official speeches and so on, are rather disturbing, and I do not think they can be sound.

7510 There is one point I should like to go back to about the State bank. If Government balances, as has been suggested, and some part of the Government Reserves ought to be loaned, I suppose they could not be loaned according to a cast iron rule?—Loaned by the State bank or apart from the State bank?

7511 Apart from the State bank they could not be loaned according to cast iron rules?—No.

7512 Some element of judgment would be involved on the part of the responsible officials?—Certainly. It would be at their option, and the Government would lend just as much or as little as they chose.

7513 Under existing circumstances do you think the officers of the Government are in a position to get the information on which they could base a sound judgment as to that?—As to what they should lend?

7514 As to what and when, and on what terms, and to whom?—No, I do not think they are.

7515 You would introduce an element of expert knowledge into their counsels by the State bank?—Yes.

7516 (Sir Shapurji Broacha) You have talked about the stringency which occurs in the busy season, and about educating the people, what do you mean by that?—I have been trying to explain, I have answered several questions as to what I meant by education.

7517 Educating them to make an increased use of notes? Do you think a State bank will help in increasing the circulation of notes?—In my opinion it will.

7518 In section D, paragraph 9 (page 575), you say "Distrustful as the people of India no doubt are, by nature and by tradition, of any security short of "possession," and so on. Do you think they would prefer a bank's note in preference to a Government note? A currency note is guaranteed by the State now, do you think these people would feel equally secure if the note were guaranteed by a State bank? Would they not think that the Government would be shirking their responsibility in putting it on to a State bank?—I have not worked out myself the question as to the form the currency note would take under a State bank, I have not considered that question.

7519, Is the circulation not fast enough now?—It is quite fast, but it might be very much faster.

7520 Have you the experience that in India it goes very much faster if issued by a State bank, than if issued by the Government?—I have not.

7521 They have had experience of the Government for the last 51 years, and, as you know, Indians are a suspicious people and full of suspicions?—Yes, they are.

7522 (Chairman) Do you think it might be necessary to keep the direct Government guarantee on notes?—I had not contemplated anything else.

7523 (Lord Faber) I think what Sir Shapurji really means is that if you circulate a note through the State bank, the natives might think it had become an ordinary bank note, instead of being a Government note. Do you not think there is something in that?—Yes.

7524 (Sir Shapurji Broacha) You want the Government to appoint the directors of the State bank?—Only of the central board, not of the local boards.

7525 That means that the shareholders are to give their money to the Government to invest for them at the best rate of interest?—Not to the Government, but to the bank.

7526 If the State appoints the directors, they are Government directors?—I have been trying to distinguish between the two, as far as I can, all the time. My point is that they are distinct, of course, I may be wrong.

7527 The Government appoints the accountant-general, and the Government appoints the directors of the State bank?—Yes.

7528 The Government is responsible for both?—The Government appoint many other people as well.

7529 But the Government has to bear the responsibility of his misdeeds?—Such responsibility as is involved in his misdeeds.

7530 Do you know that there were State banks before?—I did not know that there were in India.

7531 There were three State banks at one time. There was the Bank of Bombay, in which the Government held shares and had two directors, the same with the Bank of Bengal, and the same with the Bank of Madras, but the Government felt the danger of those institutions and severed their connection with them because the responsibility was too great?—That was 40 or 50 or 60 years ago, and the advance in the finance of the country has been very considerable in the last 50 years. There has been a considerable change, and, in my opinion, it will change still more.

7532 The responsibility will be larger?—But the machinery is more complete, and the danger is much less.

7533 Do you know that the Bank of Bombay refused to amalgamate with the Bank of Bengal, although they were offered 500 rupees per share?—I did not know that.

7534 All the merchants, I think, including your firm, went up to the Governor to ask him not to put Bombay under the control of the Calcutta Bank. Do you think these local jealousies are now quite obliterated, and that Bombay traders do not think Bombay is the first city in India?—I do not think it is a question of Calcutta and Bombay at all. My proposal is that Bombay shall have a local board, Calcutta shall have a local board, and Madras shall have a local board, exactly as they have now.

7535 There must be a central board, and wherever that is placed, do you think people will believe that the Bank of Bengal has the same independence as the Bank of Bombay, or the Bank of Bombay has the same independence as the Bank of Bengal, supposing the central office were in one of those cities?—I think the aim of anything that would be worked out should be to avoid hurting the feelings either of Bombay or Calcutta, or Madras.

7536 Do you think that the genius at the head of the central bank in Calcutta, say, will look to the commercial credit of Cape Comorin and the commercial credit of the Northern Provinces, or will he judge by the state of affairs around him?—People who have got to do business which is scattered over the country, usually try to look at it from all the points of the country.

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[Continued

7537 The Government directors will be responsible for the misdeeds of their managers?—Certainly

7538 I do not suppose there is an instance of one bank managing a whole continent Do you think the Bank of France could do that?—We are dealing with rather new conditions and new circumstances, we are dealing with a very peculiar place, India.

7539 Do you know that the Bank of France has a greater facility for acquiring knowledge of the whole country, because it is in a central place and the people on the board know the different districts of France and their credits, and that with the Bank of England it is the same thing? What would you offer in the shape of that to this central bank?—We think we know a good deal about the conditions of India.

7540 Do you know as much of the conditions of India as the bank directors here know of the credits in the Lincolnshire district, and the credits in the south of England, or in Manchester and Liverpool? Do you think bank directors in India are in the same condition to judge of the credit of Pondicherry, Cape Comorin, Lahore, Karachi, and all those places?—I have said that the local credit and the local finance would be in the hands of a local board, who are in a position, as I think, to judge of the credit of the people with whom they have to deal.

7541 You say you would do it for the education of the people, do you think this central bank will help agriculture?—I think it will help.

7542 Do you think the Bank of England does away with pawnbrokers? To go to another point, do the bunnas always charge 25 per cent? Is not their charge regulated according to the credit of the man?—That is what I have said.

7543 Do you know that merchants now buy supplies direct from the agriculturists, and that the agriculturists are not so much in the hands of the bunnas now as they used to be?—I think it is very likely so.

7544 In the Punjab they will not have the middleman now, as they deal direct with the exporter, is that not so?—I do not know.

7545 Do you not think the co operative banks would better help agriculture than a State bank?—I should think the State bank would help co operative banks, and so would help agriculture.

7546 Do you know that there is a co operative bank in Bombay which does help small co operative societies in the Deccan and those places, and that its board is composed of native gentlemen who have a knowledge of the localities?—I have mentioned these co operative societies as being the means of reaching the people.

7547 I think this education you speak of will come not through the State bank but through the co operative banks, because, if you send one manager of the central bank to one place and another to another place and they do not know the language of the country, how could they speak to the people, and how could they educate them? Do you think they could induce more deposits to be made with the State bank? Are not the Presidency banks just as good?—The equivalent of the Presidency banks would still be there.

7548 Does the State bank incorporate the Presidency banks?—The State bank would be there in the place of the Presidency banks, and the organisation which is now there would still be there.

7549 We want more certainty for the maintenance of exchange by the Secretary of State, do we not?—Yes.

7550 And why we want these stringent conditions in regard to the quantity of liquid gold is to be assured of the par of exchange in all emergencies?—That is so.

7551 People would be less urgent in asking for these things if the Secretary of State were to guarantee for all time the par of exchange at 1s 4d., that is, at  $\frac{1}{4}$  on one side and  $\frac{1}{4}$  on the other?—Yes.

7552 And, of course the people will not have confidence in any remedies until they have more or less a liquid gold reserve to the extent to which the Government are able to accumulate?—That is so.

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7553 (Mr Gillan) There are two small points in your memorandum that I wish first to refer to In paragraph 10 of section A (page 571) you say, "I am told they declined a request for a loan of 50 or 100 lakhs of rupees on the security of Government paper." That rather leaves the impression that the Government adopted an obstructive attitude, and not only were against the general policy of lending money but when the application was actually made to them they refused it Apart from the general policy the Government would always have to consider also, in the case of any particular application, the status of the applicant?—Undoubtedly.

7554 That may be a point to be taken into consideration?—Undoubtedly.

7555 In paragraph 7 of Section C (page 574) you say, "Payments by currency notes come next, and by far the greater proportion of the balance of payments is made in this form." Are you there referring specially to the Presidency towns?—To my own business, and others from whom I have enquired.

7556 That probably is not the case in currency transactions outside the Presidency towns?—I should think very likely.

7557 In paragraph 12 of this same section C (page 574) you say that it should be borne in mind that it has been nobody's special business in the past to educate the people in currency matters I am not clear yet what methods of education you would suggest I can understand that the Government or a bank might encourage different forms of currency, or that it might increase the facilities for the encashment, we will say, of currency notes, but what further points had you in mind?—My main point is that you should endeavour to educate the people as to the proper currency to use, and that is done, as most education is done, by telling people, one tells one's own particular merchants that one deals with, they tell their friends, and so on.

7558 As far as that goes, would the Government not have an efficient organisation in its Treasuries and Treasury officers and district officers all over the country?—They might have an organisation, but I have not heard that Government has ever told their officers to teach people that.

7559 You think from that point of view a State bank would be more effective?—Yes.

7560 That raises another rather important point If you are going to educate the people, you must have some clear idea of what you are going to teach them?—Certainly.

7561 The Fowler Committee, as you know, looked forward to an effective gold currency?—Yes.

7562 They said it was not possible at the time, but they hoped it would be established in the future?—That is so.

7563 When we come to examine what can be done to further that policy, we find that as a matter of fact there is actually very little that can really be done, and it remains to a large extent an ideal, but the ideal which one has in one's mind must influence one's action at various points?—Certainly.

7564 What is the ideal to which you are tending? Is it this effective gold currency which the Fowler Committee spoke of?—No, I do not agree with that, I am not in favour of that.

7565 Would you be prepared to put aside that policy definitely, and say that you have abandoned it?—Abandoned the gold currency?

7566 Yes?—I say encourage notes for everything, and I say avoid gold because of the risk of losing gold.

7567 Do you propose that the Commission should say that they so determine?—That is my suggestion, and I have said so very clearly.

7568 Next with regard to the reserves which are behind the currency policy in any case. You say in paragraph 5, section B (page 573), that there is a great lack of confidence, do you wish that the Commission should formulate and declare a policy?—Yes.

7569 In reply to the Chairman you said you would be prepared to lay down certain regulations governing the Gold Standard Reserve, and in reply to Mr Keynes I think you said that one of the regulations would be

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[Continued]

to authorise the Secretary of State to sell unlimited amounts at a certain fixed rate?—That is to gain our confidence as merchants in the stability of exchange.

7570 Is there any other point of policy which you would like to have?—What I have said is that I should like to see a larger proportion of gold or cash statutorily fixed in the Gold Standard Reserve than there now is. We have now, I think, some 2 millions out of 22 millions.

7571 So that your declaration of policy would refer to this notification of unlimited sales at a certain fixed rate, and also to the constitution of the Gold Standard Reserve?—Exactly. I should like to see a certain sum fixed as the minimum of the gold or the equivalent of the gold in the Gold Standard Reserve and to have no limit put to the amount to which the Gold Standard Reserve would go.

7572 (Sir Robert Chalmers) In metal?—I do not say no limit in metal, but I say a minimum amount, or a minimum proportion in metal, short loans or gold.

7573 (Mr Gillan) With regard to the State bank, I think your general position is that after all Government and trade have enormous interests in common?—Their interests in common are very large.

7574 That at present those interests are not properly knit together, and that some effort should be made to improve the organisation?—That is so.

7575 There was a point that was not clear to me in an answer that you gave to Mr Keynes. You said, I think, that the extension of the branches of the Presidency banks was contingent on a State bank being founded?—I think that is very likely so.

7576 Why should that be?—A State bank supported by the Government would be able to extend its operations into places which a bank with shareholders would not feel itself justified in doing. A Presidency bank is a shareholders' bank which is making money for its shareholders, and it is not, in the same way as a Government bank would be, heavily involved in the education and development of the country.

7577 I quite see that, but would it not be possible to place the Government balances in the same way with the Presidency banks?—I have agreed that that would be an advantage.

7578 Would that not facilitate the extension of these branches?—If Government placed these balances with a guarantee that they would remain, but at present they are practically money at call.

7579 I do not know what distinction you are drawing between the Presidency banks and a single State bank in that matter, I am only talking now of making over the Government balances generally?—Suppose we had, say, some 18 crores taken as your minimum figure, then if you had 25 or 26 crores it would be admitted, I suppose, that about 7 or 8 crores would be available for the country. If these funds were placed in the hands of the Presidency banks, and Government undertook that they would not remove them for two months or three months, they would be of great value, but if Government merely paid in 30 lakhs to day and 40 lakhs to morrow and took out 60 lakhs the next day, then that money is of no real value from the bank's point of view.

7580 (Lord Faber) Is your argument that a State bank would open branches at unremunerative places where the Presidency banks would not do so because of their shareholders?—That is so.

7581 Would not the people of India suffer in consequence of the Government banking at a loss in certain places?—With very many big concerns in this world trade has to be carried on at a loss in places in order to carry it on as a whole. In some parts you must take a loss, but the advantage given to you in other directions is very large, and though you must first of all work for a year or two at a loss in certain places, you may eventually come on to a paying basis if you could influence the people, as I believe you would influence them, by approaching them and giving them advice as to investment and loans.

7582 Would you really go to these unremunerative banking places in order to give them education?—Yes, and you would possibly make them remunerative, but

I do not think the directors of a Presidency bank would always feel justified in doing that.

7583 (Mr Gillan) In reply to Mr Keynes you explained generally the sort of work that would have to be done by the central board which you suggested for the state banks. Your position is, as I said, that there are certain defects at present and that it should be possible to find some remedy for these defects, not necessarily your scheme or anybody else's scheme, but some remedy should be possible?—Yes.

7584 We can get to a conclusion on that subject only by examining the different schemes that are set before us. With regard to this central board the difficulty that strikes me is this. How often do you suppose it would be necessary for that central board to meet?—Once a month might be enough, on the other hand they might have to meet every week or every day at other times. In times of crisis and difficulty obviously they should be in the closest touch, but under ordinary conditions, such as we very often find, fortunately, in India they need never worry about meeting at all.

7585 You would have on that board, we will say, two Government officials?—Yes.

7586 You say it is essential that they should meet in Calcutta, Bombay, or some other commercial centre, have you considered the difficulty of those officials being away from their department?—Government have a number of high officials in Calcutta and in Bombay, and they might, in view of the enormous interest in the bank, put an even higher official there and find work for him to do in, say, Calcutta or Bombay.

7587 Did you mention the Financial Secretary?—No, I mentioned no officer.

7588 Would it not be almost essential that you should select for this central board some official who is not at the headquarters of the Government of India?—Yes, I suppose it would.

7589 The fact remains, of course, that in all questions of principle the Government would still be the authority?—No, I think not. They have handed the business over.

7590 I mean on broad matters of currency policy and so on?—I take it that they would work as banks and Governments often do and that they would be able to consult each other. The directors of the bank would not want to do some foolish thing or to act contrary to the Government's wishes, in fact, the bank would not want to act contrary to the Government.

7591 I take it that in all these matters of financial or currency policy it would be for the Government to decide and not the bank?—I do not see how you could have your bank if it did not decide. I do not think you will get a first class banker to go out to India and do this work if he is to be hampered and overruled.

7592 Supposing the question were raised of a change in the currency system the bank could not decide and carry out that change of itself, that sort of change would have to be decided on by the Government, surely?—I suggest that a case of that sort, an important point which you can foresee, should be mentioned as one which should not be decided without the consent of the Government. If you should make a recommendation in that form, I should suggest such important points should be included in your recommendation. You could say that the Government should reserve to itself the right to approve any alteration in the currency.

7593 There would then be cases which ought to be reserved for the consideration of the Government?—I think these should.

7594 They would be decided by the headquarters' staff of the Government of India?—Presumably.

7595 Who would not be represented on the central board?—Unless Government thought it worth while to create a post in Calcutta, if they have not got one, in which case they could have a member of their Finance Department or a man who has had great experience of their Finance Department.

7596 You think there is a difficulty in filling in the Government representatives, but it is a difficulty that may be overcome?—I think so.



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[Continued]

7597 (*Lord Faber*) Who do you propose would be the authority to decide the all important question, for instance, how much liquid assets the bank should hold, which goes to the root of a bank's existence? Who would decide that point, the Government or the directors?—I think the Government would have to make up its mind, before it formed the bank, on many essential points which it would include in its articles or charter or whatever it were called.

7598 As you will readily see, it would be very necessary for the directors to meet at least once a month in the case of a bank with all these ramifications, because the bank might easily get wrong or tied up as we say in banking parlance, as it might have assets which it could not realise readily, and unless that branch of the work was very carefully watched there would be trouble?—Surely it would be reasonable for the Government to say, you shall hold so much of your assets in a certain form.

7599, (*Lord Kilbracken*) The Government of India, according to your proposal, would have the ultimate control of all the bank's operations and would therefore be responsible for them, I suppose, to the Secretary of State?—I think that the Government of India would not have the control of the bank.

7600 Do you really think that, in view of the scheme which you have sketched out? Would they not practically be responsible?—I think not. Having given them their charter, and having given them their directors, they seem to have got clear of the bank altogether.

7601 Supposing that the bank—it is not very likely perhaps—were to do something foolish, do you think that the Government of India would not be held responsible for it by the public and by people in this country?—To me it is almost inconceivable that men at the very top of their profession should be so very foolish that such a position would arise. After all, this point arises in every business and in every bank.

7602 Of course, the conditions in India are peculiar. There is a tendency to look upon Government as responsible for many things for which the Government is not held responsible in this country, and I should have thought that a State bank of this kind, controlled, as it would be, by the Government of India, would be looked upon in India as being very much under the thumb of the Government, and the Government would be most distinctly held responsible for what it does in all great matters. Do you not think that would be so?—It would be so hypothetically—that is my only difficulty. But if a crisis arose anywhere, I take it that the Government's first duty in its own interest would be to go to the assistance of the bank.

7603 I am not talking of a crisis, I am talking of the policy of working the bank which might or might not be approved by some sections of the public. Surely the Government would be held responsible? Supposing it appeared to a large section of the public that the bank was pursuing an unfortunate policy, would not the Government be held responsible for it?—Do you mean, Would the public consider that they were entitled to look to the Government to get recompensed for the loss that they might suffer?

7604 That would follow, but would not the Government be expected to hold themselves responsible in the last resort for the action of the bank?—No, I do not think so.

7605 To a certain extent, I suppose you would say that they are responsible. They cannot wash their hands of the bank, can they?—No, nor do any government of any country wash their hands of the bank. The whole country is involved in it, and therefore the Government—because the Government is the country—are involved in the success of the bank.

7606 You must draw a distinction between a State bank, which this would be in a very special sense, and such banks as, for instance, the Presidency banks which now exist. Surely the Government would be far more responsible for the doings of this new bank than it is for those of the Presidency banks?—I should guess that in giving a charter to the State bank the Government would secure itself on the important points in which the bank might or possibly could go wrong.

7607 You think it is possible it might do that?—To a great extent I do.

7608 (*Chairman*) Let me put a case to you. You suggest that all the Government balances should be transferred to this bank, and you suggest that it should be within the discretion of the bank to keep those balances where they think desirable, either in London or in India. There has been a great deal of criticism of the Government of India—we do not want now to go into the question of whether it is well or ill founded—for withdrawing balances from India and lending them out in London. Suppose such a bank pursued exactly the same policy, would the Government of India escape criticism under your scheme, or would they be expected to intervene to control the bank?—I entirely approve of lending money which is in London.

7609 I am talking of the people who do not approve, against whom would their criticism be directed? I am not asking whether the policy is right or wrong, but you know there has been a great deal of criticism of it?—Yes, there has.

7610 Suppose the bank, having the management of the balances, instead of lending the money in India find it more desirable to lend it in London, and bring it over here and lend it here, we might expect the same criticism from the same quarters—you think ill-informed criticism—but we might expect the same criticism?—Yes.

7611 Would the bank act as a lightning conductor which would carry away all that criticism from the Government, or would people look past the bank to the Government and say to the Government, why do you allow the bank to do this?—The bank would be entirely responsible.

7612 (*Lord Kilbracken*) And would be held entirely responsible by the people in India?—Yes, I think so.

7613 (*Chairman*) And the public would be satisfied that in such a case they had no recourse to the Government of India, and that the Government of India was not open to any criticism?—I can only speak as one of the public.

7614 That is your opinion?—That is my opinion.

The witness withdrew

At the India Office, Whitehall, S.W.

EIGHTEENTH DAY.

Thursday, July 31, 1913.

PRESENT

THE RIGHT HON AUSTEN CHAMBERLAIN, M P (*Chairman*)

Lord KILBRACKEN G C B  
 Sir ROBERT CHALMERS, K C B  
 Sir ERNEST CABLE  
 Sir SHAFUJI BURJOEJI BROACHA  
 Sir JAMES BEGGIE

Mr ROBERT WOODBURN GILLAN, C S I  
 Mr HENRY NEVILLE GLADSTONE  
 Mr JOHN MAYNARD KEYNES  
 Mr BASIL P BLACKETT (*Secretary*)

Mr F C LE MARCHANT called and examined

7615 (*Chairman*) Will you be kind enough to tell the Commission briefly what your experience has been in connection with Indian finance?—I was a member of the Council from February 1896 till my 10 years' term had expired in 1906. I succeeded to the Chairmanship of the Finance Committee when Mr Hardy retired, and in my actual appointment I succeeded Mr Bertram Currie.

7616 You were also, I think, a member of the Fowler Committee?—Yes.

7617 May I ask you one or two questions in regard to the Report of that Committee? The Committee in its Report recommended\* that a special reserve should be formed out of the profits on the coinage of rupees and kept in gold. Some question has arisen in the evidence we have had as to what you meant by "gold" in that connection, did you understand it as actual gold or as covering gold securities?—I think the predominant idea was actual gold, but the working out of the idea may not have been fully elaborated in the minds of the Committee, so that individually I should rather substitute "sterling" for "gold." Still, I think, especially in the earlier days of the development of the policy, that gold was predominant.

7618 Have you followed the policy of the Indian Government since?—In a general way I have, but I cannot say that I have official information on most of the subjects.

7619 You will very likely be aware that of actual gold in the Gold Standard Reserve there is comparatively little—rather under 2 millions—and that the major portion of the reserve has been invested in securities?—That is so.

7620 Do you think, in the light of the experience which has been obtained, that such a proportion of actual gold is sufficient?—I should doubt its being sufficient if the Gold Standard Reserve fund was taken by itself and separated from the Paper Currency Reserve. In the first instance, after the Fowler Committee Report there was no separation, and the Paper Currency Reserve was the whole fund. It was on its separation, if my memory is correct, that a recommendation came from the Government of India to invest primarily in Consols, and, following to some extent the precedent of the Paper Currency Reserve, and still more, having regard to the fact that the requirements of the gold fund would be mainly in London, I think that was not departing from the essential principle of the recommendation of the Committee. But, as I was saying before, if there were no gold in the Paper Currency Reserve, and no gold on that account in London, or easily available in London, it would be questionable whether so large a proportion of the Gold Standard Reserve fund should be in securities.

7621 In the light of recent events would you think it wise to invest any portion of the reserve in

first class securities such as Consols, but with no date of redemption fixed?—There is a great difference of feeling among many leading authorities in the City on that subject. Just at this moment there is a revulsion of feeling in favour of longer dated securities and I should think from my own point of view that they are right. The first question was, what was the security that was most easily saleable and most available at the Bank of England? One should bear in mind throughout that the relations of the Secretary of State to the Bank of England affect the choice of securities. At the time Consols were purchased they commanded a wide market, more than any other gilt edged security. But I would question how far investments ought to be made in Consols now. Looking at the proportion already in Consols, I think that it is wiser to buy stocks with maturities, and especially Treasury bills and other stocks that run off of themselves.

7622 As I understand you, the amount of gold which you would think it necessary to keep in the Gold Standard Reserve would be very much affected by the amount of gold you have in the currency reserve?—Yes, and by the views of the Secretary of State and the Government of India about the location of that gold.

7623 Was not the primary object of the Gold Standard Reserve to maintain the rate of exchange?—Certainly.

7624 And of the Currency Reserve to maintain and provide for the encashability of the notes?—That is so.

7625 To a certain extent, if I understand you aright, you are treating the currency reserve as a security for the maintenance of exchange?—Yes, to a certain extent, in fact to a material extent, I think I would say.

7626 Have you ever thought whether, if their objects are to be to that extent mingled, it might be desirable or possible to amalgamate the two reserves?—I think that as greater experience is gained—but experience is a matter of rather slow growth in currency questions—there might be some advantages, but at the moment the difficulty that would occur to me is that it is necessary that the Paper Currency Reserve should be under statute and fixed by statute. There is a certain amount of elasticity in the Gold Standard Reserve and the use of it, and though, in practice and by agreement between the Secretary of State and the Government of India, the applications of it are well defined, I think there have been instances in which the silver portion of the Indian branch has been used in a way that it might have been rather difficult to define by statute. Suppose, for instance it is desired to give very considerable freedom and discretion, that conflicts with the idea of a statute which implies precise limitation. So far as I can follow it at present, the views of the Secretary of State and the Government of India are so much in harmony, and they appear to agree so largely in

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principle and on the amount of the funds and the distribution of the funds, that I think it almost has the effect of a statute so far as concerns the Gold Standard Reserve for practical purposes.

7627 May I take it from what you have just said that you still think it would not be wise to bring the Gold Standard Reserve under statutory regulation?—I should rather hesitate to do it yet.

7628 Until a wider experience has been gained?—Yes.

7629 We have heard a good deal of criticism of this, which I have called, for want of a better term, in and out working of the two reserves. It has been put to us by some witnesses that it appears very anomalous that there should be silver in a reserve which is intended to preserve exchange, whilst, on the other hand, there should be gold in a reserve which is created in order to provide for the encashment of notes in rupees. What is your opinion about that?—It is anomalous, but each branch has grown up from the necessities of the case, viz., on the one hand to keep in London, and available there, as much gold as can be spared to maintain exchange, and on the other hand to have in India a supplement of silver which can be dealt with more freely than if it were under the Indian Paper Currency Act. When Council bills are paid by silver withdrawn from the Indian branch of the Gold Standard Reserve it is now the practice of the Secretary of State to add temporarily a corresponding amount in sterling to the London branch of the same reserve, by means of a deposit at the Bank of England, or in some other sterling form, and not immediately to earmark gold. If this silver were to be transferred to the Paper Currency Reserve it would seem necessary to amend the Act to secure continuance of the same powers.

7630 I think it is clear from the Report of the Fowler Committee that they intended that this Gold Standard Reserve should be kept in India?—I have not any clear recollection as to how far that was defined, but I think in the first instance that was the idea, that gold should be shipped to England if exchange fell. On the other hand, the moment the Secretary of State began investing it in Consols and sterling securities, that was a step in the direction of keeping it here.

7631 Even if kept in India, I understand that the Fowler Committee's idea of the use that would be made of it was that in a crisis it would be made available in India for shipment to London?—It was.

7632 If, then, when the crisis comes for which it is provided, it is needed in London, do you see any objection to the policy which the Secretary of State has actually pursued of keeping it in London?—It appears to me absolutely necessary to keep it in London, and I think the state of affairs that occurred in the years 1907-8 and 1908-9 emphasises that.

7633 Would you develop that?—The Fowler Committee recommended that the gold reserve should be made freely available for foreign remittance when exchange fell below specie point, the method to be according to circumstances. As one method they suggested remitting gold to England with a corresponding reduction in Council bills. Another course which was not specified, but would, I think, have been consistent with the principle of the recommendation, would have been to pay gold to the banks which needed remittances, to be applied to reduce indebtedness abroad. In the crisis year 1907-8 the reduction of Council bills, which had proved a potent instrument for maintaining exchange in previous years, was not sufficient, the balance of trade was exceptionally adverse, imports not having diminished in at all the same proportion as exports, and the Government, after apparently some hesitation, met the emergency by reversing the usual procedure, and offered in India sterling drafts on London. To meet those drafts the presence of the gold or sterling securities in London was a paramount necessity.

7634 When they made gold available in India in 1907 and 1908, did you think the result was satisfactory from the point of view of the support of exchange?—No. It is impossible to speak positively on this

subject, especially if one has no official contact with it. I cannot say whether it would have been possible to pay out the gold to remitting banks, to whom the sterling drafts were delivered. There are always great difficulties in discriminating. My answer to your question would be that it was not satisfactory in its results.

7635 As a matter of fact, in the way in which it was done, the major portion of the gold did not go to the support of exchange?—So far as I have been able to follow.

7636 Accordingly, in the light of experience, you have come to the conclusion that the Gold Standard Reserve ought to be retained in London?—Yes.

7637 Would you keep a portion of it in gold, which would vary according to the amount of gold that there might be in the Currency Reserve?—I think it might be convenient to have some minimum limit such as 5 millions, or, if gold in the Paper Currency Reserve was not available in London, I think then it would be necessary to have 10 millions.

7638 It has been put to us by some witnesses that, after all, we have to revise our ideas rather as to the saleability of securities in view of the recent course of events in London and elsewhere, and that whatever may have been thought 10 or 15 years ago, you want a strong defence in actual gold now to give you time to realise whatever securities you have?—That is so. The demands on the Government in London are spread over a certain number of months, for instance, when the bills I am speaking of, some 8 millions, were sold they did not all fall due at the same moment, and so also with the expenditure in London. There is, therefore, a certain latitude of time in dealing with the securities, and looking at the large amount of bills that are held, they would either run off or would be exceedingly convenient to borrow on for a short period, so that, looking at the list of securities so far as I have been able to examine it at present, I should feel that on the whole a large part was liquid.

7639 I think the Fowler Committee also contemplated the early establishment of a gold currency?—Yes.

7640 Do you consider that that recommendation has been fulfilled by the steps which have been taken?—A very large amount of gold has gone into India. I state that point first, because one of the objections to the gold standard as a whole that was urged by authorities of considerable importance was, that it would be impossible to get gold into India. Various expedients were suggested, and so first rate an authority as Lord Swaythling (as he subsequently became), suggested ways, such, for instance, as making duties payable in India in gold, and other expedients of that kind, which I have no doubt were perfectly sound in themselves, but proved to be not required. I merely refer to that as showing the ideas that were in the minds of experts as to the difficulty of getting gold at all. That difficulty, one may say, has surmounted itself.

7641 And, as I understand, it has so much surmounted itself that critics are beginning to suggest that too much gold goes to India?—It is so. It is the occasion for many of the criticisms on the policy of the Government. The objection which has most force is that the gold passes away from currency uses and is hoarded. Hoarding is an elastic phrase. It has been said by an Indian authority that in India every man is his own banker. Under these conditions much of the gold is not immediately effective as currency, though potentially it may come into use. In 1898 much was said of the possible use of silver ornaments as a domestic reserve. In some respects the same may now be said of gold, whether in ornaments or bullion, and still more of sovereigns. But I am not aware how far gold in any form came out of hoards in 1908. Sovereigns would have been merged in the circulation.

7642 In talking about the possibility of its coming forward again as currency you alluded to the contingency of famine, I gather you are a little doubtful how far it would come forward then?—It is a matter of degree and of place. Those parts of India where

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sovereigns are not hoarded would not have them to produce, and I gather from the currency reports on India that there is a very wide difference in the practice in the different parts, so that it would rather depend on the locality of the famine. Still I am not impressed with it as a matter of great importance.

7643 What I rather wanted to put to you was whether you thought there were any other circumstances, except the pressure of famine, which would be likely to bring this gold out. Suppose, for instance, you have an exchange crisis apart from the pressure of famine, would the man who hoarded gold be likely to produce then, in order to turn into food, whatever gold or ornaments he has?—No. I think the probability is, looking at the characteristics of races, that he would rather keep it.

7644 That being so, the development of events having been what you have described, do you hold now that it should be the business of the Indian Government to press a gold currency?—No, I certainly would not press it, least of all in those parts of India where the community appear to dispense with it conveniently. I think it has always been stated that in Bengal, for instance, in the jute country and in the rice country, the demand for gold is of an exceedingly slender character, and, so far as there is a demand, it is for ornaments. On the other hand, if you take the Punjab and Northern India, and, above all, Bombay, it appears to me that the statistics point to there being a very active demand. The reports give abundant evidence that in the parts just mentioned the sovereign is in increasing use as currency in an effective manner, and used by all classes in daily transactions.

7645 We have had evidence as to those very marked local distinctions in the use of gold. Do I interpret your view rightly if I say that you would recommend the Government of India to provide the people of India with what they ask for?—Yes, with one qualification. Where it is evident that the demand for sovereigns is only in place of bullion I should be in favour of restriction in the issues, especially when there are indications of impending famine or crisis. This is a matter of administration, restriction has already been exercised when the supply has run short, the Government is under no legal obligation to give gold. In France there is economy in the issue of gold, at least to the general public. I should be in favour of meeting the demand for sovereigns in the places where they form part of active circulation, but restricting issues where that is not the case. Every year adds to experience as to the local uses of sovereigns—at times there has been a falling off in the receipts of sovereigns from the public by railways and post offices latterly again a marked increase. Progressive experience is the best guide to action in regard to the distribution of gold.

7646 I think you told me that in your opinion gold in circulation, at any rate, until it reaches very large figures, is not of great efficacy for the support of exchange in a crisis?—That is so. I think it is a matter of degree. One often uses the word "circulation" in a way which it might be difficult to define. If one fixed the reserves of Government at any one given moment as fully adequate to maintain exchange, I am inclined to think that for any additional currency that has to be coined after that date, gold is as effective as rupees supported by a proportion of gold. I am not prepared to say that there is a marked difference.

7647 In the meantime, as long as you are coming rupees, you are adding to the Gold Standard Reserve, are you not?—You are.

7648 Provided that you do not exceed the real demand for currency in India, do you see any cause for alarm in the growth of the rupee circulation?—It is a difficult thing to forecast how the position would appear if one imagined it increased over a succession of years. Speaking at this moment I should feel no alarm, because the Gold Standard Reserve would increase, and a considerable proportion of the rupees that were coined would go out of circulation, so that

from that point of view I think the risks from additional coinage are exceedingly slight. It was just possible that a different set of circumstances might have occurred, and at one time it looked as if they would occur, it looked as if silver might rise to a point intermediate between, say, 27*d* or 28*d* and the 42*d*, which would approximately be the equivalent of the 1*s* 4*d*. In that case there might have been a much lesser proportion of gold accumulated in proportion to the coinage. I do not know that that would have been a very serious risk, but still it affects calculations if the accumulation in reserve is, say, half what it is at present. For the time being owing largely to the action of other countries in demonstating silver, that risk seems to have passed away.

7649 There is no way in which the Gold Standard Reserve is increased at present, I think, except by the coinage of new rupees and the interest on the sum already in reserve?—That is so.

7650 Suppose that when there is a demand for fresh currency you issue gold instead of rupees, your Gold Standard Reserve ceases to grow?—Except, if gold is being shipped out and being handed in to the treasuries or rather into the Paper Currency Reserve. Then you get gold, but otherwise you are not increasing reserves.

7651 Unless, therefore, the gold comes out of circulation and back into the currency reserve, the Gold Standard Reserve in the hands of the Government in support of exchange ceases to grow?—I should have thought that if there were large importations of sovereigns by the public, and those were handed to the Government for existing rupees or for notes, that at all events the Paper Currency Reserve gold would grow, and that that to some extent would fulfil the same purpose.

7652 May I take it that in either case you would hold that gold in one of the reserves is far more valuable for the support of exchange than gold in circulation?—It certainly is with the present uses of gold in India. How far if those change, if, for instance, the effective use of a gold currency develops in a considerable part of India, that might be to some extent modified, I am not prepared to say, but under present circumstances, it is as you say.

7653 May I ask your opinion about England, by way of getting more exactly your mind on this subject? We have a very large amount of gold in currency, do you think that gold is largely available for the support of exchange in a crisis, or does it represent in the main a certain amount of coin which we find it convenient to have in our pockets, and which we carry regardless of the condition of the money market?—I think if you distinguish between the gold in the pockets of the public and the gold in the banks it is so. No doubt there is a considerable amount of gold in the reserves of the various banks in England, and presumably that would be efficacious.

7654 I think that does explain to me what you were saying. As long as the gold goes into what we call hoards in India, or into gold ornaments and so forth, it is not of great value to exchange?—It is of none whatever.

7655 If it is accumulated in the reserves of the banks, or in the Indian treasuries, then you would consider it of great value to exchange?—No doubt.

7656 You have observed that the circulation of notes has increased very largely in India?—I think it has doubled in about 11 years.

7657 You said just now that you would be inclined if you were the Government of India, to give the public what they wanted, would you have any preference that they should take one form of currency rather than another?—I think notes would certainly be preferable. Of course, the habits of the people plainly bear on it but as to which is preferable I should say that notes are unquestionably preferable.

7658 If the Government of India could exercise any influence to increase the circulation of notes rather than gold or rupees, would you favour that course?—Decidedly.

7659 Now may I ask you a question or two about the opening of a mint in India for gold coinage, I

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think the Committee of 1898 recommended that?—They did.

7660 Can you tell me at all what importance they attached to it, and why they attached importance to it?—I think partly it was connected with the production of gold in India itself, which was taken at about two millions a year. There was no doubt that if that had been minted and remained as coinage in the country, after a certain succession of years it would have become an appreciable item. I think also there was the idea that it fell in with the sentiments of the country.

7661 Was the recommendation connected with the idea which, as you say, had been presented to you by witnesses of great experience, that you could not get gold into India?—Yes, to some extent.

7662 Did you consider it an important recommendation?—No. I think if it had been, the Government would have followed it up with greater force. One consideration that told against it was that the prospect of securing the gold produced in India was doubtful. There were some incidental circumstances that told against the Government securing it, and it was quite plain, I think, that if the gold was not obtained, the *raison d'être* for it mainly disappeared.

7663 Could you tell me whether those circumstances have changed since that time?—I should doubt whether they have. Of course there was always a possibility that some of the gold imported in bars might have gone to the mint, but that was not such a likely circumstance.

7664 There is no advantage to the importer, was there, in taking bars to the mint there, rather than in bringing gold to the mint here?—The bars presumably are largely imported for ornaments. I have at times heard that formerly the bars were imported when there was any degree of unsettlement in India. This I did not hear officially, but a friend who was in the Indian trade told me that he had extensive orders for bars if there was any political disquiet, on the ground, I suppose, that in that form it was easier to convey away or to conceal. Of course it might always have turned out that some of that gold would have come to be minted subsequently, but still that would not be a very important element.

7665 On the whole, the people who took bars under those circumstances did not take them for the purpose of tendering them for coinage, but for the purpose of putting them in a safe place until the disturbance passed away?—Yes, and probably retaining them altogether.

7666 The Fowler Committee had to deal with a great many subjects on which they had perhaps not very much experience to guide them, now that we have seen their recommendations at work or a portion of them, do you attach importance to the opening of a gold mint in India?—No, I do not. I am aware the opinion is held by people of great Indian experience that minting a purely Indian gold coin would be an advantage, but if the coming of Mohurs is excluded and there are decided objections to that course, I do not see the advantage of a mint for gold. The Mohur might conflict with the sovereign, which is the coin of the Empire.

7667 I am not quite certain how far you are prepared to express opinions on some of the subjects which have been remitted to us, but at any rate I should like to ask you whether you have formed any strong opinion as to the desirability or otherwise of the establishment of a State bank in India?—As a general proposition a well-constituted and managed bank is an advantage to the community, but in the particular case in question, that of a State bank, the circumstances differ widely from those of a bank on a commercial basis, and the forms which the constitution of such a bank might assume vary from types of strictly limited sphere to others designed to take a large share of the business of India abroad as well as at home. Among projects mentioned in 1899 was one by a very eminent authority, that of a bank with a capital of 14,000,000l., not necessarily to compete with the Presidency banks, who were to be invited to form the nucleus of it. This bank was to confine itself to internal business, and at in many respects like the Presidency banks, but with

larger Government funds and wider powers. It was designed, no doubt, to deal with one of the main questions of Indian banking, the demand for advances during the movement of crops. It is, however, a question whether such an institution would be remunerative, and whether the provision for seasonal demands could not be met by the Government through the Presidency banks as they now are. So far as I can draw an inference from English experience, the expense of extending numerous branches, with their management and staff, especially in India where distances are large, would be very considerable.

7668 You have spoken of the advantages, or the possible advantages, of such a bank to trade, and you have given us your opinion on that. One of the reasons that has been put and has been pressed most strongly on us by witnesses, I think, is the desirability of relieving Government of part of the intricate financial business which it now has to perform. The Government of India and the Secretary of State between them, do a great deal of what we ordinarily term banking and exchange business. Supposing that anybody saw their way to recommending the creation of such a bank and to framing a scheme for one, do you think that such a bank could relieve the Secretary of State and the Government of India of the responsibility which they now bear?—I should doubt its being able to relieve them entirely. I should have thought that at all events the Government of India and, to a certain extent, the Secretary of State, were so immediately concerned in the note issue, the security of Government balances, and the measures to meet emergencies as in 1908, that a bank could not take the burden entirely off their shoulders. I should have thought too there was some risk that the bank might become simply another Government institution—that the attempt to exercise control by a single representative, or perhaps by two representatives, might not work in a completely satisfactory way, and that there would be a risk that it would really become another Government department over again.

7669 You spoke just now of the difficulties of trade in the busy season and of the rates of interest then, I think you said that you thought Government and the banks ought to be able, under present circumstances, without the creation of a new institution, to do as much as could reasonably be done?—I do think so.

7670 Do you think Government might do a little more than it does now in the busy season to help trade?—I think it would be quite possible to make advances for, we will say, from two to three months at a time, from November to the end of March.

7671 To whom would you make those advances?—Exclusively to the Presidency banks.

7672 Would you require security from them?—I should assume that the money would be used to facilitate trade, especially the export trade, during the period before merchants are able to what is called make bills. When an exporter is in a position to draw a bill on London, he is in a position to sell it, we will say to an exchange bank, so that it is difficult to say that at that moment there ought to be any severe pressure on India, but there must be a considerable interval before the delivery of produce when the expenses of collection and other expenses up country have to be met, and at that season he is not in a position at all times to offer an immediately negotiable instrument. I should assume that the Presidency banks with their knowledge of local circumstances would be in a very good position for making advances at that period, and that in that case they could take the bills of these merchants, and then I should assume that those bills with their endorsement would be a reasonable security.

7673 Have you formed any idea in your own mind of the sort of sum that it would be desirable for the Government to lend to the banks under those circumstances?—I think there are two questions—what amount would be likely to be effective, and also what amount the Government could reasonably spare? Of course there is always a risk when advances of that kind are made, that in succeeding years trad. counts

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upon them, and that what might be sufficient in the first instance may not be sufficient in a subsequent year. Putting that aside, I should have thought that, say, something like three crores or presumably in some years four crores—of course, it would vary with the years, the produce, and the circumstances—some amount of that description would be sufficient. I indicate it rather generally, because the Government of India would have the opportunity of collecting the views of the exchange banks and chambers of commerce, and would be in a better position for naming amounts. But I assume some such amount as that in my argument. I should have thought that an amount of that kind might come out of that part of the currency reserve which at present may be called fiduciary, and that some of the securities there might, if need be, be diminished. The money would earn interest to some extent as those securities earn interest, and I think it would be more usefully employed.

7674 Have you considered whether it would now be safe to increase the fiduciary portion of the currency reserve? At present, I think I am right in saying, it is fixed at a particular sum by statute irrespective of the amount of notes in circulation?—I believe it to be so. I think the amount is 14 crores.

7675 Have you ever thought whether it would be safe to take not a fixed sum, but a proportion of the whole?—I should have thought it would be an improvement to take a proportion.

7676 That would give some elasticity to the currency system which it now lacks?—Yes. I think a proportion of the minimum circulation would be a safe practical basis.

7677 Do I understand you to say, take a series of years and average the minimum circulation over five or six years, say, and then fix your proportion on that minimum circulation?—I think that calculation would be a guide, but the increase of circulation has been so rapid in the last two or three years that, though that would give a principle, I think one would have to look to the circumstances of the last year or two particularly to see if they affected the result. I speak with hesitation, because it is a special subject, which the controllers of the currency would know better than I do, but I should have thought 25 per cent, or something of that kind, would do.

7678 In principle, at any rate, you would take no objection to that?—No.

7679 I go now to quite a different subject. We have been asked, amongst other things, to report on the financial organisation of the India Office, could you suggest any alterations for us from your experience?—Is that, if I may say so, rather bearing on the Departments or on the Council? The members of the Council, of course, are rather a separate matter from the staff organisation.

7680 I think our reference included both?—I could imagine that there might be use in individual members of the Council, each of them, having some individual province. I think possibly rather.

7681 Forgive me interrupting you, but perhaps my last answer might mislead you. You asked me if we had to deal with members of the Council, we are concerned only with them as they touch the financial organisation?—Of course, the practice differs at different times. Sometimes there have been members of Council with immediate Indian experience, then again there have been intervals without.

7682 When you were on the Finance Committee and chairman of that body, did you feel that you had in the ordinary course of the organisation as much Indian experience as you needed accessible to you?—Of course, the questions came forward from the Government of India in a very complete form, and there always must be serious responsibility in departing materially from their views on any purely Indian subject. An important side of the finance work was in relation to the home money market, the sale of Council bills, questions of issues, and of dealing with funds generally, and all this was apart from the consideration of purely Indian questions.

7683 Then your experience would rather lead you to say that what is required in the Finance Committee

here is what I may call London experience, the Indian experience being supplied by the Government of India?—I should say London experience is required for home affairs, but Indian for Indian affairs.

7684 I put the question to you, because one has become aware that a good deal of the criticism directed against the present organisation has its root in an impression, well or ill founded, that London is over-represented in the Council of the Secretary of State, and that Indian interests are sacrificed to London interests?—I should demur to that, so far as my experience went.\*

7685 (Lord Kilbracken) I think when you were on the Finance Committee, you had always on your side a member of Council who had had first-hand experience of Indian finance and commerce and had spent many years in India?—Yes, that was rather as apart from purely official experience.

7686 I meant to exclude official experience, I was trying to describe a man who had had long experience of trade and financial operations in India itself. You always had a man of that kind as a member of your committee when you were chairman?—That was so, and that was exceedingly useful. I was at the moment thinking of political experience and official experience rather than of business experience.

7687 (Chairman) From your experience would you say there was no ground for suggesting that owing to the character of the organisation, or for any other reason the interests of the London money market were allowed to outweigh the interests of India?—That is so. I would say the principal way in which the interests of the London money market came in was as bearing on the question of issues—on raising money—which after all was one of the material and most important functions of the committee.

7688 In fact, it really came to this—could you or could you not, on under what conditions could you, raise the money that India required?—Yes.

7689 (Mr Keynes) I believe you have had business relations with Russia?—I have some business connection with Russia.

7690 Have you any knowledge of the working of exchange in that country?—The State bank provides exchange on certain occasions.

7691 How close an analogy is there with India in the matter of keeping reserves abroad and so forth?—I should think the main distinction is that London is so eminently the capitalist partner of India, much more so than it is of Russia, that the circumstances are not similar. Of course, Russia has to remit for its coupons mainly to Paris and in a lesser degree to London, but it is not dependent on London for its finance in the same degree that India is.

7692 I did not mean so much its relation to London as its relation to foreign countries as a whole, do you think that the system works out in detail very much like the Indian system or not?—I think that most Russian banks have credits with the leading houses in London and Paris, and the State bank is in a position to draw when exchange is required. I do not know the facts as to what reserves it may have.

7693 Are they credits in the sense that the Government has a right to overdraw, or are they sums left with these houses? Do you mean by a credit that the Government can borrow from these houses, or that it can use funds which it has temporarily placed with them?—I am not able to answer the question. I have no doubt at times it has very large balances with these firms in London and Paris, but, if those balances were to diminish, I should assume it could draw by arrangement, but this is a matter of special knowledge, which I do not possess.

7694 It is rather an important point in connection with the Indian problem because the Government of India have either kept liquid funds, or else they assume they have to sell out their securities?—Yes, that is so.

\* Note by Mr Le Marchant. The ex-financial member of the Council of the Governor General of India was a member of the Council of the Secretary of State, and of the Finance Committee from 1899 to 1903, and was succeeded there by the ex-secretary to the Financial Department of the Indian Government.

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7695 With regard to the establishment of a State bank, you say there are a number of practical difficulties in setting it up. Some witnesses have spoken of the practical difficulties rather, if I may say so, in the abstract, and I think it is important to bring them to a head and to know exactly what they are. Even at the expense of some recapitulation of what you said in answer to the Chairman, would you enumerate what appear to you the most significant of them?—I think the first difficulty is the risk of interfering with existing institutions, which conduct the trade of India with very great success. It is difficult for a State bank, if it has sufficient funds provided by Government, to limit its transactions. Of course, there are different ideas of a State bank, some are that it should practically confine itself to internal business in India but on the other hand there is an idea that it should do a business on this side and control exchange.

7696 Are the other institutions you are thinking of exchange banks?—Mainly.

7697 You are not thinking of a case in which the State bank is additional to the Presidency banks?—I think it would be very difficult for it to be additional if it did precisely the same work. I believe that the exchange banks give liberal advances in India to their clients, how far the Government would be prepared to do the same business, I do not know. Then again it would be an important question on this side, what sort of representation the bank had, for instance, in the case of the State banks abroad, their representatives in London are the leading financial houses. It would make a great difference whether the State bank in India had as its representative one or two of the leading houses in London, or whether it had an office and a staff and business in London.

7698 Which would be the right way of doing it, in your opinion?—If you have an eminent London house as a correspondent, you have the advantage of their knowledge and their experience. It is difficult to compare different advantages together.

7699 If the State bank took over in London some of the work now done by the Secretary of State, that would really mean having an office, would it not?—Certainly, but if it did nothing more than that, I do not think there would be any advantage in conducting that which is not already enjoyed by the India Office. I should have assumed that in most of the original ideas of a State bank there was to be a large capital and business on this side, which would put the bank in more direct communication with the banking community and trade of London.

7700 These are your first two difficulties—the possible interference with the exchange banks, and the difficulty of finding the right way of representing the bank in London, what further points are there?—I attach a great deal of importance to the cost of having a sufficient number of branches in India to develop any business beyond the business now conducted by the Presidency banks.

7701 It has come out to us in evidence that the number of Government treasuries is much greater than the number of Presidency bank branches—I mean five or six times as great, perhaps?—It is some 270 odd against 35. I think.

7702 Would there be great expense do you think if the branches transacted the business now done at the Government treasuries in so far as related to holding the balances and the management of the paper currency?—Do you mean if the bank took over all the treasuries?

7703 Yes?—I have the impression that the officers in the treasuries are officers of Government, with pay and retirement, and whatever promotion Government may offer. If they become entirely officials of the bank it would be a very material change in their status, and an expensive one to the bank, I should think I do not know whether it would be contemplated that the officers should remain officials of the Government and yet do the work of the bank.

7704 I am not trying to get solutions of the difficulties from you, for that would not be reasonable, what I am trying to discover are your *prima facie* objections. That, I understand, is the third one—the

possible expense of setting up the numerous branches such as are contemplated. Is there any further difficulty?—I think all the incidents attaching to banking on a large scale have to be taken into account. There is, for instance, the question of advances, if they are conducted on a very strict scale I do not know that the bank would enter sufficiently into the commerce of the country to be of much use, if, on the other hand, they are on a very free scale, then there are all the attendant risks to the Government of being identified with business.

7705 I suppose you would agree that the Presidency banks at present are on a very strict scale?—I believe them to be so.

7706 Is there any further point that occurs to you at the moment on that head?—No.

7707 (Chairman) I think, in answering questions of mine, you did say that you thought there was a danger of the bank becoming merely another Government department?—I think, in view of the responsibility of the Government for its actions and the probable presence of representatives on it, that, looking at the extent to which the railways have become Government property, there would always be some possibility of the bank becoming a Government branch.

7708 Did I rightly understand you to express the view that, even if it did not go so far as that, the responsibility of the Government would be still so much involved that they really would get no relief or little relief?—I think they might get some relief in the ordinary transaction of business, but still no doubt much attention would be required. It would mean Government officers and Government work.

7709 In the last resort, if anything went wrong with the bank, how would its failure be regarded? Who would be blamed?—I think it is customary to blame the Government whenever a case can be made out, and they would have to accept the blame, probably.

7710 You do not think it would be possible for them to wash their hands of the responsibility?—No, I do not.

7711 (Lord Kilbracken) That responsibility would come ultimately on the Secretary of State in Council would it not?—Yes, I think it would.

7712 And he would have to be responsible to Parliament for any part of the operations of the bank of which individual Members of Parliament might disapprove?—I expect so.

7713 (Mr Keynes) I do not propose to take you in any detail over this question of the State bank so far as its positive advantages go, but suppose there were strong positive advantages, do you think the kind of objections which you have been outlining are insuperable ones? Is not your point of view rather, here are these difficulties, and I see no great positive advantage in the thing, and therefore there is not much to be said for it?—It is very difficult to contemplate the exact working of an institution which is in the air. It is difficult to give a conclusive opinion on what one might call a project.

7714 Do you regard the sort of difficulties that you have been mentioning as of a very far reaching kind?—I think taken in the aggregate, they are.

7715 (Sir Robert Chalmers) Still on the subject of the State bank, is there any local demand for a State bank in India that you are aware of?—No. I do not know that it would necessarily have come before me, but if I might transfer the question as to whether there is a local demand in London, I should have thought that the purchasers of Council bills prefer dealing with the Government through the Bank of England rather than through any other agency.

7716 As to the sale of Council bills, what would be your feeling, in the light of your experience and subsequent consideration of the matter? Would you sell Council bills when you want to, and have the funds in India, within specie points at whatever was the rate current?—Yes, with the view of fulfilling the object of selling Council bills to meet the expenditure against revenue in London.

7717 Would you sell sometimes below 1s 4d, and sometimes above 1s 4d, according to the market conditions of supply and demand?—Yes, of course,

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with the reserve of very much diminishing the sales in the slack season and not going beyond the trade demand

7718 It has been put to the Commission by witnesses that the Government of India should undertake a definite obligation to support exchange by selling bills in India on London at 1s 3 $\frac{1}{2}$ d whenever anybody came forward and applied to buy bills at that price, what would be your opinion of such an idea?—I should have thought it was better to undertake no obligation, but to carry out any transactions of that kind which the Government found desirable

7719 Does it come to this, that you in practice, as regards India, think as people do dealing with Russia and dealing with France, we will say, that is, that one should follow the market and not have any specific obligation at a specific price?—Yes

7720 Take the alternative. Suppose that there were such an obligation, do you think that the Secretary of State could hold out successfully for 1s 4d at all times when selling Council bills in London?—He could be undersold by gold under certain circumstances, when, say, the Australian exchange or the Egyptian exchange was promoting the shipment of sovereigns to India

7721 If that event happened, would it tend to this position of affairs, that he would not have sold his Council bills?—That is so

7722 But he would have gold which he would have to ship?—That is so

7723 Which would be an expensive operation on balance?—It would cost him about  $\frac{1}{2}$  per cent to ship it back

7724 You would follow the market rates?—Yes

7725 Do you think what has been called the initial hesitation of the Government of India in bringing forward its reserves to support exchange in 1907-8 had a certain moral effect of an unsatisfactory character? Do you think that people in India would have been happier if they had used their reserves immediately?—On the spot?

7726 Yes?—If the sterling drafts had been offered earlier that would no doubt have created a better feeling

7727 (Sir Shapurji Broacha) It is your recollection, as I understand, that the Fowler Committee intended that the Gold Standard Reserve should, at any rate as regards the major part of it, be in gold?—Yes

7728 Have you any recollection of any discussion on the subject of the division?—No, I have not any recollection of it being discussed in the Committee

7729 I suppose, in the first instance, the Government of India recommended putting a portion of the reserve into securities?—So far as I recollect that was so

7730 Do you know that they repented afterwards, in 1909, and said that a substantial part of the whole amount, or the major portion of it, should be in liquid gold?—I think I have seen a letter which seemed to convey a different view from the view originally expressed

7731 You are now of opinion that some of it may be safely kept in securities?—Yes

7732 Did I understand you to say that would be five millions or 10 millions?—I suggested five millions or 10 millions for the gold as apart from the securities

7733 Five millions or 10 millions out of 22 millions is not a preponderating part?—No, it is not

7734 So that would be a departure from the intentions of the Fowler Committee?—To that extent

7735 Suppose there were two crises, one in India and one in England, do you not think that the reserve being in securities would intensify the crisis and not mitigate it? Would not its being held in Treasury bills intensify and not mitigate the crisis?—I think, to some extent, any sales of securities do accentuate a crisis, whereas having gold and parting with that gold freely mitigates it, but it is a question of degree. If those securities run off, as, for instance, Treasury bills would run off of themselves, it would not be a sale, and there would be no withdrawal of gold

from the Bank of England. The obligations of the Secretary of State here are met, in fact, by cheque, they are banking transactions in the payment of interest and payment of contracts, and so on. The receipt of money through the running off of Treasury bills, and through the sale of securities, would not mean the withdrawal of gold from the Bank of England

7736 But somebody has to find it, it is no help in a crisis?—It is no help, but then whoever holds the Treasury bills would equally be paid. It is no additional demand, and it is not a demand on the gold supply of London

7737 But it is a demand on the Government at a time when Government can ill afford it. Take a time of war, or something like that?—But the Government would have to pay, whoever the holder was

7738 Suppose the Gold Standard Reserves were all in gold, that would relieve the Government's necessity rather than aggravate it, would it not?—I demur to saying it would be aggravated by payment of Treasury bills. I think, if it is a case of withdrawing gold from London, it would aggravate it, but I do not think the ordinary current transactions through the banks come to very much

7739 I am talking of a crisis and of the Gold Standard Reserve giving out gold instead of cashing its securities, would that not be better for mitigating the intensity of a crisis, while the other method would to some extent, though not altogether, aggravate it? As somebody has said, there is nothing like gold?—Of course you would have to take into account the period over which the payments have to be made

7740 I am thinking of the worst time under the worst circumstances?—It is the case that a large store of gold if disbursed in a crisis would affect markets favourably

7741 Are you in favour of uniting the Gold Standard Reserve and the Paper Currency Reserve?—I think that might be done eventually, but it appears to me that the purposes are different, though in many ways the Paper Currency Reserve is used for Gold Standard Reserve purposes

7742 Now you have 24 millions in the Paper Currency Reserve and 22 $\frac{1}{2}$  millions in the Gold Standard Reserve, and they make together about 46 $\frac{1}{2}$  millions. If you add 22 $\frac{1}{2}$  millions to the Paper Currency Reserve then the 46 $\frac{1}{2}$  millions would always look a large sum whenever the recommendation was made to pay out gold for rupees, but if the money were kept under two separate heads, then, if out of the 24 millions in the Paper Currency Reserve you take 10 millions against currency notes or rupees you think you have reached the danger point and that you should take time for reflection?—I think there is some advantage in keeping the systems separate

7743 Two and two make four, but if you keep the two separate and you only withdraw from the one, that makes you think?—There are considerations in favour of separation

7744 Do you know how many shillings a head in silver circulate in England, have you ever calculated it?—No. Of course it is a very different thing to the use of silver in India.

7745 Do you know that seven millions of rupees coined in five years only meant 1 $\frac{1}{2}$  annas per head per annum? That is not an excessive coinage, is it?—No

7746 When you know that in France there are 25 rupees a head in silver coins circulating, then the seven rupees in India do not appear to be too large. According to the calculations of Mr Keynes and others it is less than seven rupees a head now. A coinage of six rupees a head would not be an extensive coinage as compared with 25 rupees a head in France, would it? Then in Germany their Parliament has just passed a law to increase the circulation by another nine marks a head. Therefore, I think there is yet a good deal of room for the coinage of silver in India where the transactions are all in cash?—Certainly one may expect that there will be a demand for it

7747 You would not call six rupees a head a great redundancy?—No

\* See Appendix V, page 170, paragraph 7



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7748. Even what they are coining now is not a token coin, when you take the silver value that is in the rupee and bear in mind that one third is put into the gold reserve. In France silver is 62*d*, in England it is 61*d* or 62*d*, and in Germany the same. In India 28*d* is put into the rupee, and, on the basis of 42*d*, 14*d* is put into the gold reserve, so it is not such a token coinage for redemption as some would take it to be?—You would not have a very ready market for your rupees. You would not be able to sell the rupees abroad with any very great facility.

7749. No! would France her francs?—I quite agree with you. It has always been held that the French 5-franc piece is supported by the large gold reserves.

7750. So there is room for increasing the Gold Standard Reserve by coming more rupees, as there is no redundancy yet?—That is so.

7751. The policy of other countries is to conserve gold and not to dissipate it by giving it out, at what stage should we stop giving in India gold against the tender of rupees?—I do not think it is possible to lay down a principle in this connection.

7752. Do you think we might do the same as France or Germany?—In paying out the gold?

7753. Yes?—That might have the effect of causing a discount in the rupee, would not that be so, if a premium were put on the sovereign?

7754. No, I think the exchange point would be preserved. To go to another point, in the formation of the Finance Committee of the Indian Council, do you think it would be wise to put in every five years the Finance Minister who has resigned in India, because he would come fresh from his last five years' experience and so could help the Council?—I should rather doubt the wisdom of setting that up as a definite principle. He might not always agree with his successor in India.

7755. There has been an outcry that there are too many representatives of London interests and too few representatives of Indian interests on the Council—not that I say so myself. Suppose that a part of the selection were given to the Indian Government, do you think that would be a wise step to take in order to abolish the outcry?—I would rather follow out the idea, if I understand it rightly, of Lord Kilbracken, of inviting some one or more persons of Indian banking and commercial experience.

7756. Do you know the formation of the State banks of Europe, generally speaking?—Yes, generally.

7757. They have not taken much money from the Government, because if the Government have put in what comes from taxation on the one side, you will see they are indebted to the bank on the other side, and the one cancels the other?—That is so.

7758. An Indian State bank, without lending anything to the Government, would have to take charge of 50 or 60 millions of Indian money?—Yes.

7759. So it is not on the same basis as are the European banks?—No, and the needs and the requirements of the population are different, and the markets are different.

7760. What I am driving at is that these banks do not use much Government money, if they use it at all. There is Government money in the Bank of England amounting to 10 millions, and against that there is a Government debt of 11 millions, that means that the one cancels the other. So it is in France, 30 millions on one side and 20 millions on the other side and the one cancels the other there. Therefore I think this instance is quite different. A State bank lends, but here the State can never depend much on borrowing from the State bank of India, because what the State would borrow from them would be its own money?—It would be so.

7761. So the two are quite distinct in that respect?—I agree with you.

7762. (Mr. Gillen.) The Chairman has put to you some questions about a gold currency in general and its effect in supporting exchange. I think we have had it in evidence, even from those who favour the gold currency, that there is not very much that Government can do immediately to encourage it, so that from that point of view the question might not seem to be a very

important one, but the ideal that we are to hold in front of us no doubt would influence the policy of Government in the various instances that came before them, and it may, I presume, be necessary for the Commission to say what in their opinion that ideal ought to be. It is on that point that I wish to ask you a question or two. The point that is taken, I think, as the chief reason for favouring a gold currency, is that it reduces ultimately the liability of the Government, while, on the other hand, people think that increases in the silver coinage increase that liability, and therefore they are unfavourable to any increase in the rupee coinage. The liability they speak of is the liability to find gold for silver when required?—It comes to that.

7763. In your opinion does the demand for gold in exchange for rupees depend chiefly on the balance of trade, or has it some relation to the amount of coin in circulation?—I think the demand for exchange on London, which was one form of giving gold for rupees when in 1908 there were some eight million sterling bills, had relation to the amount of money owed by importers or firms in India who had to pay debts in London and required remittance on London—of course they were able to pay for it, one may say, in rupees or notes. I think the form in which the payment was made would have some relation to the money in circulation, notes, rupees, or sovereigns.

7764. I will try to put it on the basis of some definite figures. Assume that the rupee circulation at present, we will say for the sake of argument, is 150 crores and the gold circulation is 25 crores. You have two alternatives. The rupee circulation may go on increasing in the first place, suppose in the course of the next 10 years it increases to 200 crores, and the gold circulation increases to 50 crores. That is the first alternative. The other alternative is that in some way or another the rupee circulation does not further expand, and you get at the end of 10 years the 150 crores of silver that you have at present, and, we will say, 100 crores in gold. At the end of the 10 years you get a crisis and there is an adverse balance of trade, we will say, of 50 crores. As I understand the point, there are those people who say that the liability of Government at that time will be the 50 crores of this adverse balance of trade, and that, as long as there are sufficient rupees in circulation to pay off that balance, the rupee being for the time depreciated in regard to gold, what the Government will get will be rupees and not gold. That is one alternative. The other alternative is to regard the liability that will then come on the Government as having some relation, as I say, to the constitution of the coinages in the currency, so that if you had increased in the meantime your gold circulation, your liability would be less?—I think if the gold is in the hands of banks or people who are at all likely to use it, it then is effective in diminishing the liability.

7765. Would it in your opinion be an advantage in these 10 years that I am taking for the purpose of argument, if the proportion of gold should increase in the circulation, or would it not in your opinion make much practical difference at the end of that time?—I do not think as an arithmetical point it makes much difference. As I said before, I think if it is gold largely in the form of what may be called *quasi* reserves at banks, for instance, or in the hands of leading firms then it has a distinct effect in diminishing the liability, but if it has passed out into the outer circumference of the circulation, it leaves matters very much as they would have been. You have the lesser amount of rupees, as your rupee circulation will not be increased.

7766. Would not the constitution of those reserves with banks, and so on, that you are talking of, to a certain extent depend upon the constitution of the general currency?—Yes.

7767. Would it be likely to be affected by it?—How far they might find it to their interest to pay the gold out, how far the demand of the customers might lead to their parting with the gold and keeping very little, would depend upon their own principles of management, but assuming that it was fairly propor-

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tionately divided, and that the banks and the mercantile houses had their *pro rata* proportion of the gold, that is *pro rata* to the whole circulation, I should have thought then it would diminish the liability.

7768 So that in your opinion it all comes round to the policy adopted by the banks and the keepers of these reserves?—Yes. I think it makes a great difference as to what is the destination of the gold that goes into circulation.

7769 There is another point in the same connection. I think it is in the minds of those people who favour a gold currency that at present your safeguard against any fall in exchange or crisis, consists entirely of your reserves. The point that we have so far got to with this Gold Standard Reserve is that it should accumulate until it reaches 25 millions and that when it has reached that limit the question should further be considered. I think some of the persons who support a gold currency are afraid that at some point or other the accumulation in the Gold Standard Reserve may be stopped. If that were done, any further increases in the rupee circulation would not be, so to say, protected?—Plainly. The one is automatic up to a certain extent, and the other depends on policy and management.

7770 Do you share that apprehension at all? To what extent would you favour what they call an effective gold currency?—I have not specifically thought of that particular risk.

7771 You see my point?—I do, and I think so far an effective gold currency (which of course is assuming a great part of the question) is the more satisfactory resource.

7772 There is only one point I wish to ask you in regard to what you said in answer to the Chairman about the organisation of the India Office. I think your general view there was that it is for the Government of India really to put the Indian point of view?—I think so.

7773 You said I think, that it would be a great responsibility if the Secretary of State were on any occasion to overrule the Government of India?—I think on material questions, certainly.

7774 At the same time, that is a responsibility, is it not, which he does not shrink from undertaking when necessary?—It may be taken possibly after an amount of correspondence and communication, or there may be an approximation of views rather than a distinct overruling.

7775 But constitutionally it is the Secretary of State who is the final authority?—Yes.

7776 And he cannot, of course, on all points and in all cases accept the views of the Government of India?—Precisely.

7777 When a question comes home from the Government of India with their recommendation, it is possible that that question may affect other than purely Indian interests?—Yes.

7778 And it rests with the Secretary of State finally to decide that question?—Certainly.

7779 So that from that point of view it is very important, is it not, that there should be some representation of the Indian views at home in addition to what is urged by the Government of India in support of those views?—Of course nearly all the members of the Council are representatives of Indian views.

7780 I was only putting it in a general way, that it would be unfortunate if on any occasion there was not sufficient representation here of Indian views?—Certainly.

7781 With regard to the State bank, you know that the general policy of the State bank was approved, and strongly approved, by the Government of India and the Secretary of State when it was last discussed?—It was.

7782 That was in 1901?—Yes.

7783 They said they favoured the policy, but they thought the time was not very opportune for its introduction?—Yes.

7784 So they put it off with a recommendation that it should be revived, I think, as soon as practicable?—Yes.

7785 Can you state from recollection at all what were the conditions at that time which were unfavourable to a State bank?—No. I have an idea that the general basis of the proposal for the bank had fallen away. The original suggestions were suggestions on a very grand scale and that appeared to have fallen out. I have no distinct recollection whether the Presidency banks had any decided wish for it, but they were consulted. The facts were more in the minds of other persons than myself.

7786 The idea of a State bank originally was more that it should be an instrument to help the Government in support of its new exchange policy, was that not so?—Yes, it was.

7787 And that rather fell away?—Yes.

7788 In your opinion, do you think that in the course of these 10 years the conditions for the institution of a State bank have become more, or less unfavourable?—It does not appear to me there is the same occasion for supporting exchange that there was at that time. It appears to me that the Government policy, and the experience gained, enable exchange to be maintained without any adventitious systems. So far as that was one of the original reasons, I think that is much diminished.

7789 Would you say that the time has come, then for some definite declaration as to whether a State bank is desirable for other reasons, or not, or is it a question that is likely to become more practicable in another 10 years?—I should rather doubt whether it would be. I should have thought the existing conditions of trade would probably continue, and that there would be no need for banking beyond the development of the existing institutions.

7790 There is an argument which I think has been put to us, that the Presidency banks have been in existence for a very long time and that it would be dangerous to make any very large change, what I may call an historic large change. That argument would grow stronger, I presume, in the course of time, so the longer the question is left alone the more conclusive that argument would seem to be?—Especially if they develop in their business relations with the community. I think it would very much turn on whether they had generally strengthened their hold on the country, or whether it had diminished.

7791 (Lord Kilbracken.) About a State bank, have you thought at all about the practical question of what the constitution of the government of such a bank should be?—In the foreign State banks the president, as a rule, is, I think, a member of the Government.

7792 I mean, bearing in mind the peculiar circumstances of India?—I think it would require a strong directorate.

7793 Would that be forthcoming, do you think, in India?—I rather hesitate to give an opinion about the personnel in India at this moment. I should not like to say Yes or No.

7794 I venture to think there is no reason why you should not answer that question. We know what the circumstances are in India. Do you suggest that the directors should be handsomely paid for their work at the bank, would they have to give their whole time to it?—I think if the bank was to do a really active business in India, the directors must attend to it. The managers no doubt, would do a great deal of the routine work, but, arguing from the banks in London, I should say that the directors would have to work.

7795 Would there not be a practical difficulty in getting directors in India? Would you take directors from the men who are already on the spot for purposes of their own, or would you expect to have to import men from England especially for the government and management of the bank?—I should have thought the latter would be an unpopular course. It might fairly be said that they are not familiar with the circumstances of the people. You could hardly take them from the exchange banks.

7796 It has been suggested to us by more than one witness that this is a very considerable practical difficulty. How would you get the men to govern your bank and to manage it, unless under the supervision of

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Government? Does it seem to you that that is a large and important and serious difficulty?—If I might answer it in this way, when the project was originally before the Secretary of State the idea was that the Presidency banks would be amalgamated, and that consequently their experience in India would be at the service of the State bank and the Government. I do not know that the question of remuneration or time came up for discussion, but I take it that their directors were looked on as a nucleus of men who were familiar with Indian banking. If that passes out of consideration, I should have thought there would be a serious difficulty in getting men.

7797 I think to-day it is generally assumed that the State bank would be something altogether external to the Presidency banks?—I should think, then, that it would be a serious question.

7798 (Chairman.) On this point, supposing you create a Central or State bank in the first place by the amalgamation of the three Presidency banks, I presume you would contemplate that you would still require local boards in the Presidency towns?—Yes, certainly.

7799 But in addition to those, you would require a central board to supervise the whole?—Yes.

7800 Would it be possible, in the circumstances of India, to find such a board, unless you fixed the remuneration at such a point as enabled the members of it to make their place of residence where the head was located, and to give up their whole time to its management?—I should have thought that would be necessary.

7801 (Sir Robert Chalmers.) Would there be such men that you could find in India? Speaking generally, is it not the fact that mercantile men in India devote their whole time to their business and have very little leisure for other pursuits?—That is the idea generally entertained here, certainly.

7802 The general tendency is for men in commerce in India to go over there and work very hard, and then as they come to be senior partners of their firms, to come home?—Very often.

7803 But over there, men actually doing commerce on the spot are very fully occupied indeed?—I should think fully.

7804 That makes a very great practical difficulty in securing men with the necessary experience for this suggested work of the State bank in India?—Certainly.

7805 (Sir Shapurji Broacha.) Even if it were the intention of the Government at that time to make a bank by the amalgamation of the three Presidency banks, the shareholders would have to choose the board?—Yes.

7806 And the men whom they choose might not have the necessary experience?—Yes.

7807 You could not fix that board yourself without going to the shareholders?—It would be very difficult to do it, certainly.

7808 (Lord Kilbracken.) I should like to ask you a question about the machinery by means of which the India Office deals with finance, apart from the way in which the machinery has been used or worked. You are thoroughly acquainted, of course, with the India Office system and methods, and you have also had much experience of financial operations outside the India Office. I wish to address myself to you, not considering you as an ex-official, but as a man of much practical experience in financial operations outside the India Office. From that point of view, may I ask whether you have any fault to find, or any defects to indicate, in the India Office machinery?—No. I think the Office was fortunate in the men it had. Of course to some extent, you may separate the men from the Office.

7809 That is what I wish to do as far as possible, but I agree with you that it is impossible to separate all of it?—I should have said that the duties devolving on the financial secretary, Sir Henry Waterfield, when I first came, and subsequently his successor, were certainly onerous, both as regards the variety and the general nature of those duties. I think the Office was fortunate in having men who would work so conscientiously. It would have been perfectly conceiv-

able that with the same machinery the work might have been less adequately done.

7810 That rather leads to the question. Can you think of any better?—There is one point, but not, perhaps, of any great magnitude. The financial affairs were, first, in the hands of Sir Henry Waterfield, and then of Mr Abrahams, but, if I might say so, they had the advantage of an ex-official of the Treasury, your self, who attended at the Committee always. I mean there was a certain amount of other official experience of a financial character, which was brought to bear on the subjects which came before the Committee, but which happened to be incidental—it might not be so another time. I think, under those circumstances, it must certainly be useful that the present Assistant Under-Secretary of State is a man who has had a long experience in financial work, so that his successor on the Finance Committee has the opportunity of consulting with him and devolving a certain amount of work upon him. I think in that way the mechanism for the financial work has been strengthened since I was here, and I think that, or some similar mechanism, is exceedingly important in order to cope with the necessary growth of work in the India Office.

7811 Of course we must take it as we find it, and we do not want to go back to the time of Mr Abrahams' appointment as Under-Secretary. I am talking about the India Office as it stands?—I think some such system of having a man in that sort of position who can reinforce the financial department is a very important principle. I think the work otherwise very well divided. I think the Accountant-General had his immediate functions well defined. The functions of the store department were important, but I think equally the mechanism for that department was quite adequate.

7812 The store department do a very large business, and I think it has been done for many years with very little attention being attracted to it or blame?—Yes. Of course there were often communications of a minor nature from India as to stores, but I think the answers were always complete, because the system of testing and examination was so perfect.

7813 To go back to the machinery of what we call the finance department proper, do you think in matters which are really urgent it involves any unnecessary delay? Is there or is there not a means of dealing promptly with matters which are really urgent?—I think there are means. As I was saying, it depends on the occupant of the post. A person who always shields himself behind the Committee can always find occasions for postponing the consideration of any question, but that is not a necessary part of the mechanism.

7814 Are there proper checks and controls, in your opinion?—I should say that under the present system there are. I think that before there was rather a want of check, not so much on the action but on the way, perhaps, that papers were brought forward. Suppose, for instance, the preparation of all papers practically devolved on one man only in the Finance Department, as head, I think the Finance Department would be in a less fortunate position than they must be now when all that work can be checked.

7815 Do you think there are sufficient means of getting at the opinions of those who have first hand experience of India, including that of the Government of India?—I should have thought there were.

7816 You always have I think, on the Finance Committee, two or three men of long Indian experience representing Indian interests?—Yes.

7817 You said, in answer to Mr Gillan, that the ultimate decision on these financial matters lay with the Secretary of State, would it not be more correct to say with the Secretary of State in Council?—Certainly.

7818 The difference is not altogether unimportant, is it?—No, I agree with you.

7819 (Chairman.) Did your experience lead you to think that the Indian Government is required to refer to the Secretary of State in Council unnecessarily on questions of detail, or, to put it in other words, is the

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control of the Secretary of State in Council unnecessarily minute?—I cannot recall any decided instance, but it is a very difficult thing to review 10 years I should not think the mechanism is at fault, but the question is more than I can answer at the moment.

7820 Mr Gillan put it to you that it was felt in some quarters that the enlargement of the gold currency in India reduced the ultimate liability of the Government, whereas an increase of the silver currency increased that liability. Suppose you had an absolute option of meeting a demand for an increased currency in India either by putting a million sovereigns into circulation, or by putting the equivalent rupees into circulation and the profit on their coinage into the gold reserve, which of the two courses would you favour? I am putting it to you purely as an instance of what you would do if the decision rested absolutely with you?—I think under existing circumstances the coming of additional rupees and putting aside gold in the reserve is the most effective course, but if, on the other hand, the uses of a gold currency so develop in India that it flows back to the centres with rapidity, which seems a question rather of time and not determined at present, I confess I should rather lean in the long run to the gold currency.

7821 But before you made your choice for the gold currency, you would wish for a change in the habits of the people, would you not?—Yes, I should I should not endeavour to deprive those parts of India that use a gold currency of the use of it, but I should not attempt to force it in any direction, and I should take advantage of all information from the spot as to the extended uses of the gold that had been paid out.

7822 I want to ask you two or three questions on subjects which we have not yet touched upon. Several of the witnesses who have come before us have advanced the opinion that it would be desirable that the purchases of silver for coinage should be more steady and consecutive, and that Government should not wait until there was a great urgent need which lends itself to the market being cornered against them, what would you say to that?—I do not think it possible to have a completely regular routine of purchases. It is plain, in a country where the monsoon determines the circumstances of the year, that in a very favourable year the demand for currency may be extreme, but it would be easy to accumulate a useless pile of rupees by adhering to some strict system. I do not think it would be possible to go on what was the system at one period in America, that is to say, buying and coming so much silver a year.

7823 Do you think that in recent years the Secretary of State has erred on the other side, or not?—Of coming too much, do you mean?

7824 No, of waiting too long before he purchases his silver?—It is rather difficult for me to answer your question categorically, because I was not here at the time you refer to, and I am not absolutely familiar with the dates. If the rupee portion of the Paper Currency Reserve was kept to an adequate figure, on which there was some correspondence between the Secretary of State and the Government of India comparatively recently, I should have thought that there would be time for the purchasing, shipping, and coming of whatever might be required.

7825 (Sir Robert Chalmers) Between the call for rupees and the time when you can provide the rupees, is there not a kind of buffer provided in the Indian portion of the Gold Standard Reserve of 6 crores?—Yes.

7826 And that, in your opinion, would be its justification, I suppose?—Yes. I do not know that it makes a difference whether it is there or in the Paper Currency Reserve, but I was viewing an aggregate of from 17½ to 24 crores of silver according to the time of the year.

7827 That is, to take another way of looking at it, a certain measure of till money to meet special demands?—Yes.

7828 (Chairman) You are aware, I think, that the balances both in India and in this country have been unusually high of recent years?—Yes, they have.

7829 And you would be aware, of course, that the

Secretary of State has largely withdrawn the surplus money from India and removed it to London?—Yes.

7830 Do you think he was right?—It appeared to me that it was hardly a withdrawal in quite the ordinary sense of the word. By selling Council bills it was a transfer from the Government treasuries to the mercantile world to whom those rupees were paid, so it was a change of hands. No doubt it diminished the power of the Government to use that money in any other way in India, supposing they had any project of public importance that they could have paid it out for, as that money was then removed from their control.

7831 Supposing that they brought it to England with the intention, as early as possible of either redeeming debt in London, or of preventing the creation of new debt, would you think they were justified?—Yes. I should say it came under the general question of the policy of using surplus revenue either to reduce debt or to avoid the contracting of debt.

7832 Do I understand you to think that was a wise policy in the circumstances of India?—Yes. I can understand another view being entertained of that question of policy. The existing policy has very considerable advantages.

7833 What is the alternative that you can see?—The alternative would be to borrow more largely in sterling for railways and for permanent works, but then we know that the markets were not favourable to larger borrowing and it would add to the burden of sterling debt.

7834 In that way you would have got the sums which were transferred to London by the sale of Council bills on India?—Yes, if the money was not obtained by sale of Council bills, it must have been raised by loans.

7835 What would you have done with the sums which in that event would have been retained in India?—There are works of a local kind in so large a country on which the sums retained in the Indian cash balances could be applied, but still, that would be a marked deviation from the policy up to date.

7836 But whether held in India or transferred to London, you would have taken advantage of the money to carry out some development work?—Yes.

7837 I do not think, when you were on the Finance Committee, or its chairman, your balances in London were ever so large that you had any difficulty in loaning out the surplus?—No.

7838 You are aware that in recent times they have grown so large that the ordinary approved list of borrowers was unable to take the whole of the money the India Office had to lend?—Yes. I think that may be partly owing probably to the fact that there are fewer borrowers of gilt edged securities than there used to be. Formerly such a very large amount of Consols, India stock, and similar securities were held to run against money, but I think that is diminishing in these years, and, besides, there is the increase in the balances.

7839 The difficulty having arisen, the Secretary of State lent the money to certain London bankers, and it appears that he lent it without security, do you think Government money ought to be lent, even to the highest class institution, without security?—I do not think the banks would have taken it on the terms they gave if the question of security had been raised.

7840 I think the County Council lends money sometimes and exacts security?—It does. That is rather a long standing arrangement with a particular bank.

7841 Is there any observation you would like to make to us which has not been elicited by the questions we have put to you?—No, nothing, thank you, personally.

7842 (Sir Ernest Cable) I think Mr Gillan was discussing with you the question of an effective gold currency. From that, I think, arises the further question whether the sovereign is a suitable circulating medium for the people of India, bearing in mind their poverty and other circumstances. What are your views on that?—Certainly there seems evidence that in certain parts of India it does circulate and is very eagerly applied for—I am assuming, from the reports, not with

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[Continued.]

an immediate view to hoarding or melting down I would rather base my view on those facts, and say that for a considerable number of the community of India it does appear to be a convenient coin, but I quite believe that for a large portion it never can be.

7843 It has been suggested as an alternative that a 10-rupee gold piece should be coined, would you favour such a coin being in circulation at the same time as the sovereign?—I should have thought there might be some confusion, and that it would not be available for exportation on favourable terms, but would only be taken over, say, at its pure gold value, or slightly above, perhaps I should have rather doubted whether it would bring out gold from hoards for the purpose of circulation.

7844 It might also, perhaps interfere with the circulation of the 10-rupee currency note?—Yes, of course, it would directly compete with that, and that appears to have gained ground in a satisfactory way.

7845 Some comment has been made to day on the difficulty of forming a board for the suggested State bank in India, the present three Presidency banks are managed by local boards, and as far as you know they are well managed, are they not?—Certainly.

7846 The question, however, that was put to you was narrowed down to the question of the one central board?—Yes.

7847 (Mr. Gillan.) With reference to what you said in answer to the Chairman just now on the subject of a gold currency, I understand you contemplate that it is possible that the stage might be reached at which the gold in circulation will come back to the centres?—Yes.

7848 It is not clear to me how that stage would be reached I can understand it being reached *per saltum*, with a sudden conversion of the currency, or something of that sort, but if you are only working to it gradually, as long as you have got a very large

volume of rupees in the country, as it not those rupees that will come back, and not the gold? If you start with this volume of silver currency of 150 crores or 200 crores, whatever it may be, does it make any real difference whether the gold in circulation is 25, 50, or even 100 crores? How do you get over that intermediate stage?—I should have thought that if the country was saturated with gold, if the gold was a very large proportion, its mere weight, as it were, would drive it round through the channels of circulation I have noticed one criticism made on the gold currency is that it flows back quickly to the treasuries, post offices, and railways. It is said that is a proof that the population do not want it. I am taking this fact as some evidence that gold is not necessarily retained, and it is likely that the circulation of it will develop, at all events in the parts of India referred to.

7849 No doubt it would go on developing, but is the process not reversed every time you get a crisis?—That it would be hoarded on that occasion, or kept back, rather?

7850 Yes?—I should have thought that depended on the development of the use of gold in circulation.

7851 So that you are preparing for a gradual change in the habits of the people, that is what you are anticipating?—Following on what they have done already.

7852 (Sir Robert Chalmers.) If I followed your earlier answer aright, you are contemplating a system in which banking, as we understand it in this country, would play a much greater part in the habits of the people?—I think that would be a material assistance. I think the development of banking—not necessarily large banks, but local banks—would be of very great use.

7853 You are contemplating a time when every man, to use your phrase, ceases to be his own banker?—Yes.

The witness withdrew.

Mr. L. G. DUNBAR called and examined.

7854 (Chairman.) You are Secretary and Treasurer of the Bank of Bengal, I believe?—Yes.

7855 Will you tell us briefly how long your experience of India has been?—I went to India in January 1886. I have been 26½ years in the service of the Bank of Bengal.

7856 We have had referred to us a series of questions, and I would like to take you through some of the points that arise on them. Have you any criticism to make on the size of the balances either in India or in London in recent years?—That question has been gone into by the Bengal Chamber of Commerce, and they addressed a letter dated the 28th May\* to the Secretary of this Royal Commission on the subject. They generally approve of the action of the Government in the matter.

7857 Am I to take it that you concur generally in the opinions expressed by the Bengal Chamber of Commerce in that letter?—I do.

7858 As regards the balances in India, some criticism has been addressed to us suggesting that the time of the collection of the Government revenue, and the delay in its disbursement, injuriously affect Indian trade, do you share that feeling?—It is no doubt the fact that a considerable sum of money is locked up in the Government civil treasuries, but the exception that is taken in India is, as far as I know, to the reserve treasury balances, which are unduly large. The amount required to make the rates a little lower in India is, I think, quite a small sum, comparatively speaking.

7859 You speak of the sums in the reserve treasuries as being unduly large, are you putting that as the general feeling in India, or is it your own personal opinion only?—I think it is the general feeling in India.

7860 And you share it?—There are a very large number of treasuries and sub-treasuries, and one

realises that there must be a certain balance kept in each one of them. Owing to the very large number of these treasuries, the aggregate balance must be large. But the reserve treasury is a mere "stocking."

7861 Setting aside for the moment the question of the creation of a State bank, to which I will come presently, do you think that the Government of India could afford to do without the reserve treasuries?—I think the amounts in the reserve treasuries should be made available to the Presidency banks, or a selected number of bankers, for loans when required, at a moderate rate of interest.

7862 You do not think a very large sum would be required for the purpose, do you?—I do not think so.

7863 Would you propose that the Government of India should not lend to anyone except the Presidency banks?—Only to approved bankers.

7864 Then that would mean the Presidency banks, or would it include certain joint stock banks as well?—It would include some few others. The Exchange banks could put up security if necessary.

7865 Would you expect to get loans without security, or would you anticipate that the banks would be called upon to deposit security with the Government?—I think the banks should be called upon to deposit security with Government.

7866 What sort of security?—¾ per cent Government paper.

7867 You say you expect the money would be lent at a reasonable rate, what sort of rate have you in mind?—I think if Government would lend at 4 per cent. per annum the bank rate in India would then never go above 6 per cent. The 2 per cent. trading profit would be quite fair to the Banks.

7868 You do not think a 2 per cent. profit is rather a large one?—I do not—not for the risk of lending in India.

7869 Would you think it wise that the Government of India should take bills for this security from

\* See annex to Appendix XXVI, page 601.

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[Continued

the banks, or would you confine them absolutely to Government paper?—At present I would confine them to Government paper

7870 Do the banks carry, or would they carry, enough of that Government paper to enable them to obtain the sums required?—I think so. If any bank happened to be short they could come and borrow from the bank that had the paper

7871 You suggest that the Government of India should lend at a fixed rate irrespective of the bank rate at the time?—That was only because I hear that people complain about the idea of the bank rate going up to 8 per cent. If the money was available from the Government at 4 per cent I do not think the bank rate would ever then go up above 6 per cent

7872 Suppose the Government were to say that within certain limits they would lend at 1 per cent below bank rate?—The Bank of Bengal I do not think would ever take it. I do not know about the other two Banks

7873 You do not think the difference of 1 per cent would make it worth while to take it?—I am not sure that the Bank of Bengal would ever require to borrow even at 4 per cent. One cannot foretell, but we have not borrowed for six years

7874 (Sir Robert Chalmers) What has the bank rate been in that sort of time, what is the maximum?—It was 9 per cent for six weeks in 1906, and it was 9 per cent, I think, also in 1908 for about six or seven weeks, but since then it has never been above 8 per cent. In 1908, I believe, the price of the crop which comes into the market about that time—rice—was very dear, and more money was required than usual to finance it

7875 (Chairman) Apart from your desire to see a certain amount of the surplus balances made available in this way for trade purposes, do you offer any other criticism on the management of the finances in recent years?—That is rather a large question. I do not think the chamber of commerce has found any other fault

7876 In regard to the Gold Standard Reserve, do you concur in the opinion expressed, I think, by the chamber of commerce that it ought to be held in London?—I think it ought to be held in London and invested—not in gold

7877 As regards investment, do you suggest that the whole of it should be invested?—I think the chamber of commerce say about five millions should be kept in gold and the balance invested

7878 How do you arrive at that figure of five millions?—I take that as the amount that might possibly be required before the sale of securities became necessary

7879 On the whole, would you agree with me that the experience of recent years has shown that the sale of securities of the first class is not always such an easy or certain operation as we used to think?—Yes, quite so

7880 Having regard to that, do you think that five millions is a sufficient margin to allow in gold?—Opinions vary. This was discussed at the meeting of the chamber of commerce at which most of the leading merchants of Calcutta were present, and I think the words are 'a sum of not less than five millions. Some wanted to say "not more than five millions"'

7881 Is it your personal opinion that it would have been better to say "not more than five millions"?—I do not profess to have any special knowledge on the subject, but I was in favour of "not more than five millions"

7882 Of course that would mean that in any crisis you would have to sell securities?—Not necessarily. There are always a large number of sovereigns in the currency reserve. We could transfer the securities to the currency reserve and take the sovereigns out of it

7883 Could you do that without an alteration of the existing law?—I cannot say

7884 At the present time is it not the case that the amount of the securities that can be held in the currency reserve is strictly limited?—You are quite right, it is strictly limited. Government would have to pass a short special Act for the purpose

7885 So that in arriving at five millions as the amount to be held in the Gold Standard Reserve in London, you rely for making up any possible deficiency on the gold in the currency reserve?—At present I would as there is plenty of gold in the currency reserve which is not required

7886 If the gold in the currency reserve fell off, would you think it necessary to revise the limit of five millions of gold to be held in London?—I would not personally. It would depend whether Government could borrow against securities in London instead of selling them. If they could borrow at a reasonable rate of interest, I would always do that in preference to selling

7887 I suppose your object in desiring to invest as large a proportion as possible is to earn interest instead of having the money lying idle?—Simply to earn interest

7888 You would agree, I presume, that if you are to have a Gold Standard Reserve at all, the first thing to aim at is that it should be sufficient for the purpose for which it is established?—Yes, quite so

7889 Security is more important than profit?—Well, yes

7890 It is a question of degree, in your opinion?—Yes, it is a question of degree. I agree with what the Chamber of Commerce say, that it would be a very unbusinesslike proceeding to have all this sum lying idle

7891 Do you think it would be a good bank proposition, having regard to possible liabilities, to have only five millions in cash?—I personally think so

7892 You are, of course, cognisant of the existence of the Indian branch of the Gold Standard Reserve?—Yes

7893 Which is held in rupees?—Yes, four millions sterling or six crores of rupees

7894 Do you see any objection to that?—I personally see no objection to it

7895 The Fowler Committee made certain recommendations which have been accepted and acted upon by the Government, and some others which have not been followed out, amongst other things they recommended the establishment of a gold currency—what is your view about that?—I am opposed to a gold currency as not required in India and as a wasteful and expensive luxury

7896 With regard to the gold which finds its way into circulation in India, have you formed any definite opinion as to how much remains actually available as currency?—It is impossible to express an opinion. My own opinion is that India is very much more prosperous than it was, the people are better off, and the ladies of the country, who must be a very large number, say 150 millions, are now wearing gold jewellery rather than silver jewellery, only the poorest class have silver jewellery now

7897 You think then that a great deal of the gold, at any rate, that has gone into India, is not in circulation?—In the last four years India has had large crops, which have been sold at high prices. My own opinion, judging from what one sees—of course, the better class of women are not exposed to view in India—is that gold jewellery is now much more extensively worn than formerly, and in my opinion that is where a good quantity of the gold has gone

7898 As far as currency is concerned, do I understand your view to be that the rupee is a more convenient form of currency for India than the sovereign?—It all depends upon whether you take the view of the receiver or the view of the buyer of the grain. The buyer of the grain who has to transport this money about the country prefers the sovereign, but I think the receiver, the seller of the crop that has been marketed, prefers rupees

7899 The buyer prefers the sovereign as being handier to move?—Yes, and to count, and handle

7900 From that point of view the note is better still?—Yes, it is, but there is the difficulty of getting it cashed. There are very few places where it can be encashed throughout India at face value

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7901 The note circulation has risen very markedly in the last few years, has it not?—Very much of late years

7902 I suppose that has been largely stimulated by the greater facilities that have been afforded in the way of the universalisation of the smaller notes?—I think so to a certain extent I think the increase of the note circulation, which has gone up from 46 crores in 1909 to 66 crores in 1913, that is, in four years, is merely indicative of the increasing wealth of the country. It means that 22 crores more floating capital is available in India

7903 Does your bank attempt to encourage the circulation of notes in preference to other forms of payment?—In Calcutta and anywhere else where there is a currency office, such as Cawnpore and Lahore, we deal almost exclusively in notes, but in a place like Dacca, where there is no currency office, it is all rupees. The rupees are a great inconvenience to the bank, they are very heavy, and they cost a considerable sum to transport about, so we do all we can to encourage notes

7904 You would like to see an increase in the note circulation?—Yes, I think so

7905 Could Government encourage the circulation of notes any more than it does?—Yes, by opening more currency offices

7906 Could it encourage it in any other way than that?—There is a lack of civility on the part of the subordinate Government officers. People prefer to deal with the bank rather than with the currency office

7907 Does that affect the question of whether they get notes or rupees?—I do not think the ordinary person will go to a currency office if he can help it. He prefers to deal with a bank. I am speaking very generally, of course there are many exceptions

7908 Does the Government ever offer inducements to you to take gold rather than notes?—They have not offered any inducements on the Bengal side to take gold at all, and there is very little gold in circulation there

7909 But elsewhere?—Elsewhere they offer us inducements to take gold rather than rupees

7910 Will you tell me in what way?—For instance, at Lahore, at Agra, and at Delhi, to my certain knowledge when we take a currency transfer from Calcutta when money is wanted in those three places, if we take it in rupees there is a charge of  $\frac{1}{2}$  per cent premium, but if we take it in sovereigns there is a charge of only  $\frac{1}{4}$  per cent premium, so that traders get the money from us in gold at  $\frac{1}{4}$  per cent less than we charge them if they take it in rupees

7911 (Mr Gillan) In what centres is that?—The three places I know are Lahore, Agra, and Delhi

7912 (Chairman) Do you know the reason why the Government should make that distinction?—I understand that the Accountant-General at Bombay got alarmed at the very large influx of sovereigns, so he sent large remittances of sovereigns to those three places and others, to get rid of sovereigns at those places this inducement is offered

7913 To that extent the Government of India is actively using its influence at those centres to put gold into circulation rather than rupees or notes?—I do not know whose orders they are, I understood it was the Accountant-General of Bombay, but I suppose the Government of India must have approved. It is outside the Accountant-General of Bombay's province, but the sovereigns came from Bombay

7914 (Mr Keynes) Is this recent—within the last year or two?—I am not certain when it began, I should think it was fully a year ago

7915 Does it go on now?—It was going on when I left India.

7916 (Chairman.) So far as it goes on, it would not be correct to say that the Government of India is purely neutral in the question of what form the currency would take, and gives the people whatever they ask for?—This is a transfer of money from the buyers of crops in Calcutta to these outlying places, and Government offer an inducement of  $\frac{1}{4}$  per cent to anybody who will take gold at these three places.

They may do so at other places, but I do not know about it

7917 In the part of India with which you are mostly concerned, is there any growing demand for gold?—The people are well acquainted with gold, but I am not aware of any demand for gold. They will take notes now in Burma, and there is little demand for sovereigns there

7918 As far as you are concerned, would you prefer to see the Government of India encouraging the issue of notes and rupees, or would you like to see them encouraging the issue of gold?—I am not a believer in a gold currency, therefore I should prefer to see them encouraging the use of notes

7919 Do you think that gold currency, or gold in the other forms of which you spoke earlier, would be of much value for the maintenance of exchange in the case of a crisis?—We must have a gold standard. It is the gold currency that I think is unnecessary

7920 I was assuming that you required to maintain the standard. Do you think that gold in the currency, or the other gold in India of which you spoke which is used as ornaments, would come out for the support of exchange in a crisis?—Gold as ornaments certainly would not. I do not think the private gold would come out at all

7921 Therefore for the purposes of exchange you would prefer to have the gold in the currency reserve, but not in actual circulation or hoards?—That is so

7922 Now I come to the question of the State bank. Your directors have addressed a letter\* to the Commission, in which they are good enough to say that they desire to place your expert knowledge and experience of finance and banking in India at the disposal of the Royal Commission, but they wish it to be clearly understood that any opinions expressed by you are your own personal views, and cannot in any way be binding upon the Board of Directors or the shareholders of the Bank of Bengal. They add, however, that they have authorised you to say that they agree with the broad principles enumerated in the letter of 28th May 1913 from the Bengal Chamber of Commerce,† of which you have already spoken, and they go on to say that if the Commission pronounce in favour of the principle of a State bank for India, formed by the absorption of the three Presidency banks under a reconstructed bank, the directors will in consultation with the Government of India at once take steps to formulate a scheme, and to lay a scheme before their shareholders for their consideration and approval. Your directors do not express any opinion there as to whether it would be desirable in the interests of India that there should be such a State bank formed, would you let us have your views on that point?—My directors did not wish to commit themselves to anything until they heard what part of the banking business done by Government was to be made over to the State bank, and on what terms. At present when we do work for Government they pay us what they call our out-of-pocket expenses, and there is very little in it

7923 You have the use at present of considerable balances free, have you not?—We do an enormous amount of work for it—we keep up a very large establishment. I have got the figures here. Our establishment costs Rs. 2,40,000 a year, and we pay Rs. 23,000 for police guards to guard the currency chest which the bank keeps free of charge at our branches

7924 You would not like to lose it?—That is a very different thing

7925 I suppose if there were a State bank it would take over all the Government balances?—I think it should

7926 And I suppose it would have to take over the management of the note issue?—I think so

7927 Very probably it would do the business now done by the Secretary of State in London in the sale of Council bills and transfers?—I think a London office of the State bank should be established

\* Printed as supplementary note to Appendix XXV, page 596.

† Printed as annex to Appendix XXVI, page 601.

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[Continued]

7928 Do you think it ought to be allowed to do business outside the requirements of the Secretary of State?—A proposal of that kind would meet with the combined opposition of the exchange banks. I think the State bank might be safely permitted to purchase sterling bills to the extent of, say, 20 millions a year to meet the requirements of the Secretary of State in London.

7929 You would not think it necessary to allow them to deal in exchange outside the requirements of the Secretary of State?—The exchange business is the cream of the Indian banking business, it is the best of it.

7930 What sort of capital do you think such a bank would require?—I put it down at five millions sterling.

7931 That is just about the capital of the present Presidency Banks, is it not?—The capital and reserves of the present Presidency Banks.

7932 On the establishment of such a bank would much more capital become available for Indian trade development?—All the Government money, or a considerable portion of the Government money, would be available. It would make the rates of interest lower in India.

7933 Do you think that the Government of India could safely entrust the whole of its balances to a bank with no larger capital than that?—Managed as the Presidency banks are at present, I should say Yes.

7934 Perhaps you would consider it would be reasonable that the Government of India should require representation on the board?—Certainly.

7935 I suppose it would be necessary to maintain local boards in the different Presidencies?—I think so.

7936 And then you would have a central board sitting somewhere?—In Calcutta.

7937 Is that a *sensu qua non*?—Yes.

7938 How would you propose to form that board?—There would be our Calcutta directors, and Bombay and Madras would be asked to send a director to this central board, whether they would or not I do not know.

7939 Do you think it would be easy to get and maintain a fair representation of other districts on a board which sat in Calcutta?—Calcutta is the most important town in India, and the richest and most prosperous district, and it is difficult to believe that the central board could be anywhere else.

7940 I was not intending to dispute that, but my point, as you can see, would apply equally whenever you placed the central board. What has been put to us by some witnesses is that India is so vast a country and the business men who are there are so busy with their own affairs that it would be impossible for them to meet in one central place and there to control the affairs of the bank?—That would be impossible.

7941 You think if you had a bank the supreme board would have to be for those reasons a Calcutta board?—It would have to be a Calcutta board in my opinion.

7942 Suppose that such a bank were established, and you had one or two Government representatives on the central board, ought it to have through them a right of veto?—If those duties which you have just enumerated are handed over to the new State bank, I think the Government directors should be in a position of very great authority.

7943 Of course in that case the responsibility of Government would be both very real and very great?—It is a question whether Government would be responsible. The Government directors would be acting on behalf of the Government, but I do not think the Government should take any responsibility to the public.

7944 Could they divest themselves of responsibility in the eyes of the Indian public, if directors nominated by them sat on the board and played an important part there?—I am not quite prepared to say what the Indian public would think. I do not believe the Indian public would think anything about it. They would merely know that the bank was controlled by Government directors.

7945 In your opinion would there be great advantages to India from the creation of such a central bank?—I think so, I have read the remarks of Mr Abrahams\* and also of Mr Keynes† on the subject, and they have put the case very fully and fairly, I consider.

7946 Do you think such a bank would increase the actual banking facilities in India?—I think, including all the banks in India and the great banking community of the shroffs, that the banking facilities in India are already pretty complete. The difficulty on the Bengal side that we find is reliable borrowers to lend to.

7947 One reason for the maintenance of so many Government treasuries is the absence of bank branches which might do the business for them, is it not?—India, as you have just said, is an enormous country. At the majority of the places where Government treasuries are established there is little banking business possible, not sufficient to pay the expenses of a branch, but the Government need their treasuries all over the country as revenue collecting centres.

7948 Then to that extent the creation of a State bank would not relieve the Government of the necessity of maintaining these treasuries?—It might in the case of a few of the bigger treasuries, but not in the case of the great number of sub-treasuries.

7949 Is there much tendency on the part of the banks to extend the number of branches?—The tendency, I think, in India is for the finance required by trade to be more and more concentrated in the seaports, these up country places are dying away, with the exception perhaps of Cawnpore, which is a manufacturing place, and one or two places on the Bombay side.

7950 Have the banks made any serious effort to attract to themselves the hoards of the people of India?—The Bank of Bengal used to offer 4 per cent for deposits fixed for 12 months. We got far more than we could employ, and we had to reduce the rate to 3 per cent per annum, 3 per cent is all we pay for fixed deposits, and we will not take deposits for short periods.

7951 Does that apply to the busy season as well as to the slack season?—The busy season is such a short period. We never borrow now for short periods even in the busy season.

7952 (Sir Ernest Cable) You have branches over a large area in India, have you not?—A very large area.

7953 Do you find in the management of your branches difficulty arising from the fact that you are dealing with a large number of different people with different interests, languages, and so on? You run from Burma, on the one hand, to the north west, do you find it hard to manage such a large area?—I do not think so. We send trusted agents to the various places, and the man on the spot is given a certain amount of control, under the strict supervision of the head office and directors, but what he does we really do not know of until, say, several days later, when his returns reach the head office.

7954 But you do not find a difficulty in managing the bank under such conditions?—No, I think not.

7955 So, from that point of view, the large area involved would be no difficulty in the case of a central bank?—I do not think so at all.

7956 You said that the cream of the business in India belonged to the exchange banks, did you not?—I meant to say that the finance of the foreign trade of the country was the cream of the business in India.

7957 I only put that to you because I understand that the exchange banks are engaging in local business as well?—So they are. We have had to reduce our rates in Calcutta for advances to jute mills to half per cent below the bank's published minimum in order to compete successfully with the exchange banks.

7958 I always understood that the exchange banks used to think the cream of the business was the local business?—No. Look at the enormous profits they make.

7959 It would be a *sensu qua non*, I think you said, that Calcutta should be the head office of the central

\* Appendix XIV, page 339.

† See Indian Currency and Finance, published by Mac Millan 1913. Chapter VII, paragraphs 28-31.



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bank If the scheme were retarded, or perhaps even vetoed, by reason of local jealousies between the Presidency towns, would you not concede the point that some neutral city should be the head office?—I do not think so. In my opinion Government should approach the Bank of Bengal and ask the Bank of Bengal to submit a scheme for a State bank. We would then approach the Bank of Bombay and the Bank of Madras, and, I think, personally, also the Allahabad Bank, the Alliance Bank, and the Delhi and London Bank, with what would be considered fair terms of absorption. Then if the banks do not choose to take them they can stay outside.

7960 Then you would suggest an amalgamation of other banks besides the Presidency banks?—That is my own personal opinion. The State bank would want more men and more offices.

7961 You have suggested, I think, in your memorandum that a central bank should undertake the management of the Gold Standard Reserve, do you mean by that that the bank should undertake the responsibility of maintaining exchange?—No, we would simply hold the fund.

7962 You would be the custodians of it?—Yes, and we would show the balances every week in our weekly statement.

7963 Has it ever been considered whether the Government of India should issue local Treasury bills if they happen to be short of money at any time?—I have heard it mentioned by brokers and other people. Mr Reid, a broker in Calcutta, has several times, I understand, been to see the Comptroller-General about it, but I have never heard that the Government have any intention of doing so.

7964 Do you think that they could raise money in that way if they wanted it for short periods?—I think so, or they could overdraw from the Presidency banks at a very moderate rate of interest.

7965 One of the reasons brought forward for the establishment of a central bank is that it would form a link between what might be called the great banks of the country and the agriculturists, that it would link the various money markets together, and that the central bank could undertake the task of lending to agriculturists, perhaps through co-operative societies, would that be possible?—Yes. The Bank of Bengal will only deal with the central co-operative societies—I am not quite certain of the names—and only then if they are guaranteed by their directors, who are men of a certain standing, and these societies lend to village banks. So we already do that business.

7966 At present the Presidency banks tender for Government loans, and presumably they sell them out gradually at a profit, that, I suppose, would not be possible if one central bank were formed, as it would be a Government institution?—There is a very large investment demand in India for Government paper. The ordinary investor quite knows the danger of buying bazaar paper, that is paper from the bazaar, so he comes to the Bank of Bengal—and it is a very large business on our side—and he buys paper direct from the Bank of Bengal, he then knows his title is good. We charge him 6 annas or 4 annas above the market rate for our good clean paper free of law suits.

7967 The issue of new loans is, of course, a source of profit, the Government would get that if the central bank issued the loans?—It all depends. The Government can deal in Government paper, as we do, through the central bank, or else it may do as at present—ask us to tender for the loan, accept our tender, and let us do the dealing.

7968 Do you agree with the suggestion that the central bank must inevitably become a Government institution?—I do not say that it should be a Government institution. I merely say the Government should be represented on the board of directors, and strongly represented.

7969 The staff would not be Government officials?—No.

7970 (Mr. Gladstone) I think you said that you would limit the securities to be given for Government loans to 3½ per cent. paper?—Perhaps I was wrong.

That is the only trustee security in India, but first class municipal debentures might be taken.

7971 Under the Bank Act you are allowed, are you not, to take port stock and municipal stock?—Municipal and port trust debentures.

7972 Would you include those?—Yes, they ought to be included.

7973 We have heard something about the way in which money can be more easily raised now on loan in India. It is the fact, is it not, that the Presidency banks are allowed to advance on certain railway securities, local companies not directly guaranteed by the Government of India, according to a schedule which they publish from time to time?—Yes.

7974 Perhaps you would favour those securities being included?—Personally, I would not.

7975 Do you not lend on those securities?—We are authorised to do so. There is one, the Darjeeling Himalaya, which is looked on as very good. Loans depend upon the character of the borrower.

7976 Raising capital for railways in India is rather in its infancy now, but you are probably aware that there is a very considerable move in that direction, and the expectation is that much larger sums will be raised in India for branch railways under contract with Government, with not what we might call trustee guarantees, but amply secured?—Yes.

7977 There are, for instance, rupee loans with a 3 per cent Government of India guarantee?—Yes.

7978 I suppose you would be willing to advance against those, and that those should be included?—There is no market, or a very small market, in India, and I think the bank would only take into consideration the character of the borrower.

7979 Have you personal experience of the working of the treasuries up-country, do you think they are economically worked?—I think they are very economically worked.

7980 Do you think the balances which are moved on from one place to another are kept as low as possible?—The bank's complaint is that some are kept too low.

7981 Apparently you think full advantage is taken of the improved railway facilities and telegraphic facilities as they now exist, we have had evidence, I think, that trade has increased, and the commitments of Government are larger, and the balances are now considerably greater up-country than they used to be?—I am not prepared to give an opinion on that point. I think they are very economically managed. Occasionally there may be a surplus of 50,000 or 60,000 rupees at one treasury, which is not immediately required, but will be required a little later on. It might possibly be moved somewhere else, but there would be the cost of moving.

7982 If that be the case at 200 or 300 treasuries it would amount to a large sum?—It would in the aggregate. It is only for a very short period of the year that there is any shortage of money in India, and that could easily be met of late years by the reserve treasury without touching any of this money.

7983 I am now dealing with the question whether any of these balances up-country are unnecessarily large and therefore, of course, wasteful?—Speaking generally, I should say not.

7984 (Mr. Keynes) You say you have rejected fixed deposits at 4 per cent?—We will not give 4 per cent. now.

7985 But you propose that the Government should lend to you at 4 per cent?—In times of pressure.

7986 Four per cent. is the rate that you would pay, then, in the busy season, not all the year round?—No, in the busy season. We as bankers do not mind 8 per cent. at all, it is the merchant who is to benefit by any reduction, and he often does extremely well when the rate is 8 per cent.

7987 Was your reason that if you were to employ all those funds you would lower the bank rate, and you do not wish to do that?—We had too much money. Our cash balances grew enormously and it was no good paying 4 per cent. for money which was lying in the till unused.

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7988 By too much money do you mean more money than you could use at the current bank rate?

—Yes

7989 So that you could only use the additional funds by lowering the bank rate?—No, we could not employ the funds at all—or, at any rate, only for a very short period of the year

7990 Do you hold that the funds that you could employ are largely independent of the level of the bank rate at a given moment?—I say that it is a question of supply and demand. We got more money than we could employ by offering 4 per cent, so we reduced our rate first to 3½ and now to 3 per cent

7991 Do you think that the demand for money at a given moment in India is independent of the rate charged for money, or not?—The demand for money in India is caused by the crops and the habits of the cultivators who want cash for the crops

7992 Then the reason for raising the bank rate is not to choke off a certain number of borrowers?—The reason for raising the bank rate is certainly that as the borrowers increase, not being a philanthropic institution, we make them pay more for the money when the demand is in excess of the supply

7993 If raising the bank rate chokes off borrowers, I suppose lowering it would bring new borrowers forward?—No, I do not think it would. There are times in India when we cannot lend money at any rates at all

7994 I am speaking now, not of the very dull season, but of the eight months of the year in which there is a good deal of business doing?—We are always open to lend money

7995 If you put the very dull season on one side, but keep your bank rate down, does that mean that more borrowers come forward who would have been deterred by a higher bank rate?—No, I do not think so at all. Money is required for trade, and borrowers pay the bank rate current for the time being

7996 Did I understand you to say that raising the bank rate choked off some borrowers?—I do not actually mean to say that, but as pressure for money increases we make the borrowers pay more for the accommodation

7997 That has no effect upon the number coming forward?—It ultimately has an effect

7998 Then I suppose lowering the bank rate ultimately would have the effect of making more come forward?—There are borrowers, but it is reliable borrowers who will pay us back that we want

7999 Do you argue that if the Government lent you money at 4 per cent in the busy season that would keep down the bank rate to 6 per cent? How much additional borrowing would be produced by that result?—I do not think the Bank of Bengal would borrow anything at all

8000 Do you mean that the Bank of Bengal could already meet all borrowers at 6 per cent if they chose?—If the Bank of Bombay and the Bank of Madras rates keep down to 6 per cent ours would not probably go up, but if their rates go up to 8 per cent or 9 per cent we must support those institutions by putting up our rate too

8001 Apart from that, do you think you could meet all demands at 6 per cent?—We would not keep to 6 per cent if we could get 8, but if we could get money from Government at 4 per cent there would be no excuse for our charging more than 6. I hold that 2 per cent would be a fair banking profit for the commercial risk of lending the money

8002 Do you think the mere offer on the part of the Government of lending at 4 per cent would keep the bank rate down?—That is my opinion

8003 That is based upon your theory that the urgency of a number of borrowers in India is, apart from the slack season, independent of the bank rate?—It is independent of the bank rate. It is caused by the marketing of the crops

8004 I am putting that point definitely, because it is a point which it is difficult for anyone used to the affairs of this country to understand?—Quite so but the conditions in India are absolutely different. Money there is required to pay for the crop coming to

market, and borrowers come to the Presidency banks first. It is not as if there were reliable borrowers going about who will borrow when our rate is 4 per cent and will not borrow when our rate is 5 per cent

8005 It is your deliberate opinion, in the peculiar circumstances of India, that the number of borrowers is, broadly speaking, independent of the bank rate, so that the offer to lend funds would prevent its rising to its present height?—Yes, I think so. If the Government offered to lend to the Presidency banks at 4 per cent, our rate would never go above six

8006 It seems a simple solution. If a State bank were to be established, do you think they could push notes in a way in which the Government cannot push them at present?—I think so

8007 In what sort of ways?—We could have far more branches than the Government have currency offices

8008 Do you mean that the facility of being able to cash them would encourage the people to use them?—Yes

8009 I think you mentioned this afternoon the fact that there was no currency office at Dacca, and the fact that Dacca was a long way from Calcutta was an important part of the reason why notes are so little used in Eastern Bengal?—Yes. There is no currency office in Eastern Bengal

8010 Have you any knowledge of why there is not? What has hindered the establishment of one?—The Government felt, I think, that they would have to transport large sums of money about the country. The Presidency Bank of Bengal in the busy season send seven crores of rupees to the Dacca district, and that gradually filters back to Calcutta. The cost of sending the seven crores is large. If there was a currency office in Dacca, the Government think they would have to provide whole rupees at their own cost

8011 If such a currency office had been introduced in the early years, then if people had wanted to cash the notes at Dacca it would have been expensive to Government?—But rupees were wanted to pay the ryot, not gold or notes, and the cost of sending the necessary rupees would have fallen upon the Government

8012 Do you think in the long run the extra popularity gained by the notes would recoup the Government for the initial expense?—Yes, and I also think if there was a currency office in Dacca rupees would be very much less used, and the people would take notes

8013 Then it has been rather a short-sighted policy, you think, based upon fear of the initial expense?—It has been a short-sighted policy undoubtedly, based upon the Government's idea that it is not its duty to assist and facilitate the financing of trade

8014 Are there any other important centres in the part of the country you have knowledge of, in which currency offices ought clearly to be opened, in your opinion?—There are a large number of centres where there are no currency offices

8015 But no outstanding cases?—Dacca is one big one, but it has a short season. There may be others

8016 (Sir Shapurji Broucha) I suppose you would rather the bank rate go to 8 per cent than take 1 per cent profit on Government borrowed money?—I do not think 1 per cent is good enough for the risk of lending the money

8017 You simply raise the rate to 6 or 7 per cent in a brutal way?—We do not raise the rate in a brutal way at all. We raise the rate as borrowers come and take away the money from us. If nobody came to borrow, our rate would remain at 3 per cent

8018 If your rate was 6 or 7 per cent, would not the commercial community have a voice in your action?—The commercial community are represented by our directors, and it is our directors who raise the rate

8019 It appears now—it has not been known to the Commission before—that a large amount of gold is taken in the north west parts, that is to say, in the Punjab at Agra, Delhi, and Cawnpore, because the Government give a concession of 1½?—I am not certain

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about Cawnpore, but I am about the other three places. I know that our agents ask for a currency transfer payable in gold. One day our assistant, in translating a code telegram, forgot to write "payable in gold." Then there was a hullabaloo because the agent was charged  $\frac{1}{4}$  instead of  $\frac{1}{3}$ . We checked the telegram and found the mistake.

8020 If the native merchants wanted to transfer a lakh from Bombay they would not like to go to the Government?—They would prefer the bank at even rates.

8021 Is that  $\frac{1}{4}$  on the gold forcing gold into circulation?—It suits the Government to get rid of the gold.

8022 Of course, it is owing to the Government forcing this circulation of gold that more gold is going to Lahore, Delhi, and Agra?—I do not know whether the Government is pressing the circulation at all. I merely know that they charge us  $\frac{1}{4}$  less for taking payment in gold.

8023 Are your directors in favour of a State bank?—They have got an open mind on the subject. They want to see the scheme. If there is nothing in it, they do not want it.

8024 They are not asking for it up to now?—The letter from the Bengal Chamber of Commerce\* says, like everybody else, that there are various pros and cons. They are keeping an open mind.

8025 That is not asking for it?—It has not been brought up much.

8026 Then there is no necessity for asking the Government to have a State bank?—I think in India there is no enthusiasm about a State bank.

8027 What benefits would you give the Government and what would be the duties of the State bankers?—The benefit is not to the Government. The benefit is to the populace at large.

8028 And what is the benefit?—Efficient management.

8029 What more would you do in your circle if there were a State bank?—All this money, instead of being locked up by Government under the names of various funds, would be available for trade, and everybody would get money cheap. That is the idea.

8030 And money being very cheap, you would not borrow from the Government at 1 per cent less?—No.

8031 What better service would you do for your circle by a State bank than you are doing now?—I do not think it would be any particular service to the shareholders of the Bank of Bengal, but it is thought by experts that a State bank would be of great service to the people of India.

8032 You cannot get more credit than at present in your circle, can you?—Not in our circle.

8033 France, England, and Germany have less than one third the area of India, but I suppose that, having three banks, better service is rendered to each of those three countries than if there were only one bank for those three countries, whether it be the Bank of England, or the Bank of France, or the Bank of Germany?—I am not prepared to express an opinion on that. I suppose those three countries are quite different to India. Perhaps in France, Germany, and Great Britain they are better with their three separate banks, but I am not certain that Bengal, Bombay, and Madras are—they are all one country.

8034 If you could not render more service to your circle, do you think the Bank of Bombay could render better service to its circle?—The Bank of Bombay are usually harder up than we are.

8035 You have, of course, much more money to spend, but you cannot do any better service by a State bank than you already do?—I think there will be a better service in Bombay.

8036 How?—All our Bengal funds would then be ready in times of need to help Bombay.

8037 I am talking of yourself. Will you do any better service for your circle by having a State bank?—Our circle is quite comfortable at present with the bank as it is.

8038 And you could not do better service there?—We are anxious to extend the benefits of the service to Bombay.

8039 How many directors have you in your bank?—Seven.

8040 How many of them are natives?—None.

8041 Are there not any native shareholders in the Bank of Bengal?—Very few in Bengal.

8042 Suppose these three banks were amalgamated, the Bank of Bengal has more than double the capital of the Bank of Bombay and the Bank of Madras, has it not?—Yes.

8043 So the directors would be elected by the shareholders of the Bank of Bengal, as they are elected now in the Bank of Bengal?—Yes.

8044 And then, of course, the board would be the board of the Bank of Bengal?—No, there would be local boards at Bombay and Madras.

8045 I am talking of the central board. The central board would be men of the Bengal Presidency Bank?—The present very able directors of the Bank of Bengal.

8046 I do not deny their ability. How many directors have gone to Lahore and travelled through Central India or Southern India to get an idea of the extent of the business that they should do?—I think they all of them go to Simla and various other places.

8047 Simla is not a banking place?—They are all men of the leading firms, with the greatest knowledge of the country. I do not know whether they have actually been to Madras, but they certainly all go to Bombay.

8048 Do you think people who have never been to India will be able to manage native credits in India?—There is not the slightest difficulty in its being done at present.

8049 That is very easy to say, but how is it to be done?—Why should it not be done?

8050 I suppose you discount bills in your branches?—Yes.

8051 One signature is nearly always from Calcutta, is it not?—No. We discount the bills of the local shroffs. We have a native accountant and a native sub-accountant at each of our branches. They are both men of considerable standing in the place, and they advise us as to the standing of the native firms that come to us.

8052 What has all your discount, apart from the Calcutta signature, done for your branches compared with Calcutta itself?—Our best bills come from Bombay, I think.

8053 Bombay is, of course, all right?—I said, I think, to the Chairman that my experience is that finance in India is now getting centred in the seaport towns. Up-country the shroffs our branches know are all well-to-do men who seldom or never discount.

8054 Do you think Bombay will submit to your Calcutta board?—I think they would be wise to do so.

8055 Do you not know that there were three State banks at one time, one at Calcutta, one at Madras, and one at Bombay, with Government directors and Government shareholders?—And they were brought into discredit by the bad behaviour of Bombay.

8056 Quite right, but you remember you offered as a bribe to give them for their shares 500 rupees, while the liquidation would only give them 100?—I do not think that is possible.

8057 You have not gone into that?—I have never heard of it.

8058 They would never submit, and would have nothing to do with the credits being distributed from Calcutta, how are you going to surmount that difficulty?—Calcutta, in Mr. Dickson's time, made an offer to the Bank of Bombay, and I think the majority by which it was carried was something like 136 for to 134 votes against, there was only a very small majority. That was a great mistake on the part of the Bombay people.

8059 The Bombay people would not submit to it?—Unwisely, they did not submit to it.

\* See annex to Appendix XXVI, page 606, paragraph 18 O 19067

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8060 Do you think there is a chance of their submitting now?—We will leave them outside if they will not submit

8061 Did you ask them recently their opinion whether they would like to amalgamate with your bank?—Not that I know of

8062 I thought you said something like that?—No I said we would offer to amalgamate if the Royal Commission decided that a State bank is advisable for India

8063 Do you think the Government of India would lend you two crores or three crores or four crores in a time of stress, and would take upon themselves all the responsibility without any control?—Every other country has a State bank, why should not we have a State bank in India?

8064 Those State banks lend to the Government but you State bank is to borrow from the Government?—We do not borrow from the Government at all. We support the Government very largely

8065 Would you take charge of the duties of bankers to the Government?—Yes

8066 There would be the management of the public debt of India, the management of the paper currency, which means about 42 lakhs or something like that, and the management of the Gold Standard Reserve Fund, would you use all that, or lock it up in a safe?—We would publish a weekly statement showing how it was used

8067 But you would use it?—Not necessarily

8068 What would you do with it?—It would be all in the till, and the information published weekly

8069 Would you lend nothing from it?—We would have it as we have it at present. How much is there to lend? Very little, it is all invested.

8070 The Government would have directors on the board?—Certainly I would have the Governor and the Deputy Governor Government officers

8071 Will not Government be responsible for any mistakes of the bank?—Not at all as the Government

8072 Do you know that Mr Mill wanted to make Government responsible for the loss of the Bank of Bombay money, and only lost his resolution by a small vote?—I believe so. It seems extraordinary

8073 Then you say that Bombay is not in a central position?—That is so. They could send a representative over

8074 How could they do that without the shareholders' consent?—It would have to be with the shareholders' consent

8075 You would have the majority?—We will offer terms to the Bank of Bombay, if they do not like it they can do the other thing

8076 Who are "we"?—The Bank of Bengal

8077 What has the Bank of Bengal to do with it?—I am only suggesting that if the Commission decides that a State bank is advisable for India, it must go to the biggest bank and ask that bank to formulate a scheme

8078 Perhaps the Commission may want you to formulate a scheme before they decide on a State bank, would you kindly formulate a scheme?—I am not prepared to do so. That should go to my directors

8079 (Sir James Begbie) Is it not your experience that when the bank rate is 8 per cent less bills are offered for discount?—The shroff keeps up his price, but we do not get hundis at a higher rate than 8 per cent

8080 (Mr Gillan) Your proposal to lend to the Presidency banks at a fixed rate suggests a question. Suppose the Government are prepared to lend in a particular district a crore of rupees at a fixed rate, how does the Government representative distribute the loan between the different centres?—That is premising that there will be any competition for it. It will be simply first come first served. The person who applied for it first would get the crore

8081 That is to say, the Government would simply wait for an application and then would grant the first application at the fixed rate?—It is merely suggested in the interest of the merchant, who wants a lower rate than an 8 per cent rate.

8082 According to that view you might get all the money at Calcutta and leave Bombay wanting?—We might do if the Government had only a crore, then Bombay would come to us, and we would charge them 1 per cent higher, and they could have the money

8083 It suggests this to me, that if you have a fixed rate for a loan from the Government with no method of judging where the money is most required?—I am merely mentioning a rate of 4 per cent with the idea of preventing the Indian banks from going above 6 per cent. My own idea is that if the Government will lend at 4 per cent, the banks will not be justified in making more than 2 per cent out of it, that is the only reason. If you make it 6 per cent 7 per cent, or 9 per cent, then the banks would make their rates 8 per cent, and so on

8084 The effect then would be, in your opinion, to lower the general bank rate through the busy season?—The effect, in my opinion, would be that the bank rate would not exceed 6 per cent in the busy season on the Bengal side, I cannot speak about Bombay

8085 That is to say, on the average of the year you would be making less on your deposits?—We can guard against that by paying less on our deposits

8086 What it means is a further reduction in the rate you are paying for your deposits?—Very probably, and the money we discard will then be available for railways and for opening up the country generally

8087 You have told us that you get far more money than you can use?—That is so

8088 At the same time everyone sees there is great scope for development in India?—There is a great scope for the honest development of India. We may desire to develop India, but whom can you trust to do so? The Government are the only people

8089 Do you mean that you have not got firms working at the development of India to whom money could be given?—The firms we would trust do not come to us. They are mostly wealthy firms who get their own money, their reputation is so good that the public take shares in their companies, and so they do not come to us for loans

8090 That is rather a curious position, is it not, where a bank refuses the provision of the capital required for the country?—I do not think it is any part of a bank's business to put up money to build, say, a railway, but it is quite a reasonable proposition to lend money to a first class firm who want to build a railway. How is the bank to check the mismanagement, contractors swindling, and things of that sort?

8091 At any rate, you have got the position that the bank has more money at present than it can use?—I hold the view that the bank has so much money that we will not pay more than 3 per cent. Of course 3 per cent is a high rate, English banks do not pay anything like that

8092 When you come to the stringency of the period when there is an increased demand for money, where is that demand met from, what are the additional resources that come into the market to meet that demand?—Council bills and wire, 50 lakhs, or 100 lakhs, or 150 lakhs a week, if there is any amount of extra wires taken. The Government have got the rupees and the notes, so we have to get local money from Government

8093 You are depending on Councils and the increase of the bank deposits in India to meet this extra demand for money?—Yes. The bank balances go down and down as the money goes to the districts to buy the crops

8094 A good deal of money is drawn off the market in order to finance the crops, and it is not till some time later that the market is reimbursed by the Councils being drawn?—The actual money to finance the crops is found by the Presidency banks who, having no access to London, have no means of getting Council bills. When the crops come to the seaports then the Exchange banks come in and the bills are offered to them, then they wire home to London saying perhaps, "Send 20 lakhs extra of Councils". The Presidency banks have no means of getting Councils from London.

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Mr L G DUNBAR

[Continued

8095 I understand that the Exchange banks confine their business to dealing with these produce bills?—Yes, in a way, but they also finance mills and people who want to draw money to pay for produce

8096 They do not, as a matter of fact, draw Council bills in anticipation?—Take a bank agent in Calcutta, say the Calcutta manager of the Chartered Bank, he cannot afford to have money lying idle in Calcutta to await the demand.

8097 At the time when the money is being taken off the market to finance these crops I presume a certain condition of stringency has been established?—Yes

8098 I should have thought it would be an ordinary banking transaction for the Exchange banks to bring in some money in order to finance bills in anticipation?—Then they would have to gamble in what the rates of exchange would be. The rate of exchange does not go up until the stringency is established. The head offices of the Exchange banks are not in Calcutta, they have only an agent there, and it is questionable whether he would be permitted to borrow or draw from the head office large sums of money.

8099 There seems to be some difficulty then in the inflow and outflow of capital into India, or as between India and England. It does not come in very easily when the rate in London is high, and it does not find its way out when you have got too much money?—It is all explained in Mr Keynes's book.

8100 What have you got to say to that?—I entirely agree with what Mr Keynes says.

8101 As regards the relations of the Presidency towns to the up-country stations in the matter of finance, I want to read to you what was said by the Upper India Chamber of Commerce on that subject. They said, "When bankers and merchants of approved standing have to pay abnormally high rates for accommodation, it means that the less well-to-do class cannot get funds for trade purposes, except at an exorbitant cost. As high as 20 per cent has been paid by dealers of fair commercial standing during the current year on short-term drafts. Be the reason what it may, in times of dear money Bombay and Calcutta appear always to be in the position to pay much higher rates of interest than up country trade can stand, and, therefore, money is drained to these centres generally at the particular season of the year when it is most urgently needed in the Mofussil for produce."—I cannot imagine why a place like Cawnpore should expect to get money if they will not pay rates as high or higher than those ruling in Calcutta and Bombay.

8102 Is this a correct description, do you think, of the position?—I think we as a bank take first class shroff hundis up country at the same rates as in Bombay and Calcutta. I tell our agents that they ought to get at least  $\frac{1}{4}$  per cent more, but they very seldom can. What the bazaar have to pay for their money is quite another story.

8103 Going back to the import of funds from outside India, you were saying that the Presidency banks have no resort outside India at present?—They have no resort according to the charter.

8104 I want to ask whether the exchange banks are not sufficient to supply India's requirements?—The Exchange bank managers are in London, and while the Calcutta agent may have views as to the future course of money in Calcutta, it does not follow that the head office approve of his views, or that they have the funds available to let him have them.

8105 Do you think the position is affected by the fact that the Exchange banks are not purely Indian banks?—I think their head offices could with advantage be in India.

8106 But they are dealing with a number of other countries?—Yes, that is so.

8107 The Presidency banks, being purely Indian banks, perhaps take another view of the necessity of importing funds?—There is any amount of funds in India, it is simply that rupees are locked up by Govern-

ment. If we could get them out of Government there would be no necessity to import sovereigns.

8108 You mean that if Government lent its balances there would be no need or occasion to bring in funds from abroad?—We want rupees and we cannot import rupees. We can import sovereigns and Councils, but it is rupees that we want, and they are locked up.

8109 You know the Presidency banks have made a great point of their not being able to resort to the London market?—They did years ago, but I think that is out of date.

8110 You think it is unnecessary?—I think it is quite unnecessary.

8111 On the supposition that the Government of India lend out the balances in India?—As I have said, the Bank of Bengal has not for six years required any money, and, as far as I know, will not require it in future.

8112 Even in the busy season?—Even in the busy season we have enough to go round. The minimum cash balance which we require for our business is  $4\frac{1}{2}$  crores, and we have never borrowed until our cash balance got down, say, to four crores and 30 lakhs, of late it has never been anywhere near that—we have always been over six crores.

8113 I am not quite sure what advantages you foresee in the formation of a State bank, is it that the bank would be able to encourage further the circulation of currency notes, is that one point?—I think so.

8114 And that they would be the better people to deal with the Government balances?—Yes, and make the Government balances more useful than they are at present.

8115 Is there any other particular point that you have in mind?—I put down\* that their duties should be bankers to Government, to manage the Public Debt, which we do at present, to manage the paper currency, to manage the Gold Standard Reserve, and to establish a London office in order to take away the banking business now done by the India Office.

8116 Taking the internal banking arrangements of the country, that is to say, the development of the paper currency and the management of the Government balances in India, are those advantages, do you think, which are conditional upon the institution of a State bank, that is to say, could you or could you not attain them through any development of the Presidency banks?—Government does an enormous banking business of its own already, and the only question is whether a practical concern like a bank would manage that business better than Government offices now do.

8117 Could the Presidency banks manage it without amalgamation?—I think so, but it would be much better if they were amalgamated so as to have one bank. The relations between the Presidency banks I think are most friendly at present.

8118 Would it be possible under any system, for instance, to make over the paper currency to the three separate Presidency banks?—It seems difficult, but I daresay an arrangement could be arrived at.

8119 How would you divide the circulation?—That is a difficult problem and it requires much study.

8120 Could you make over the balances similarly to the Presidency banks without much calculation?—I think so. Of course I cannot speak for the other two banks.

8121 In the previous correspondence a difficulty was raised about giving the Presidency banks access to London separately without amalgamation, I take it from you the present point of view is that it is not essential or very necessary that that access to London should be given?—Since those proposals were made things have changed enormously. Money is cheap in India and dear in London, and, speaking for the Bengal Bank, we have had no occasion during the past six years to have any desire to borrow in London.

\* Appendix XXV page 596

The witness withdrew

At the India Office, Whitehall, S.W.

NINETEENTH DAY.

Friday, 1st August 1913.

PRESENT

THE RIGHT HON AUSTEN CHAMBERLAIN, M.P. (*Chairman*)

Lord FABER  
Lord KILBRACKEN, G.C.B.  
Sir ROBERT CHALMERS, K.C.B.  
Sir ERNEST CABLE  
Sir SHAPURJI BUREJORJI BROACHA

Sir JAMES BEGGIE  
Mr ROBERT WOODBURN GILLIAN, C.S.I.  
Mr HENRY NEVILLE GLADSTONE  
Mr JOHN MAYNARD KEYNES  
Mr BASIL P. BLACKETT (*Secretary*)

Mr H. F. HOWARD, C.I.E., called and examined

8122 (*Chairman*) Will you kindly tell the Commission what your Indian experience has been?—I first went out to India as a member of the Indian Civil Service in 1897, since then—confining myself to my work in connection with Indian Finance—I was Under Secretary in the Finance Department of the Government of India for three years from 1905 to 1908, and subsequently to that, since 1909, I have been Collector of Customs in Calcutta, with the exception of five months last year, when I officiated as Secretary to the Government of India's Finance Department.

8123 In the Memorandum (*see Appendix XXIII*, page 576) which you have submitted to us, I think you take the view that the total balances in India and London combined have undoubtedly been exceptionally high of recent years?—Yes, I do.

8124 But you attribute the size to exceptional causes?—Yes.

8125 In the main, to the Budget surpluses of revenue over expenditure and to lapses under the head of capital expenditure on railways?—Yes, but I think that there are certain other causes which must be mentioned, such as the fact of anticipatory borrowing, which Mr. Abrahams has drawn attention to, by which I mean that loans have been realised in anticipation of requirements to this extent—that they have been floated towards the end of one financial year, though it was intended to use them during the next financial year. Then, again, the balances have also been swelled by the postponement of the discharge of temporary debt. There are other minor points—I do not know whether you wish them referred to—such as the failure of the local Governments to spend up to their budgeted allotments.

8126 As regards the non-redemption of debt, and to a certain extent the borrowing in anticipation of requirements, would you say that at the time when that was done it was clear that the Budget surplus would be much larger than had been expected?—That is a matter which must always be doubtful. I think that we in India thought that the temporary debt might have been discharged sooner but of course in saying that I am speaking for myself rather than for the Government of India.

8127 Am I right in thinking generally that the Indian Budgets were framed on the assumption that the surpluses at the end of the year would be reduced to figures which were much nearer normal at any rate?—Yes, I think so.

8128 It was due to the non-realisation of the Budget Estimates, either by excess of revenue or underexpenditure, that the large surpluses accrued?—Yes. I may say, with regard to that, that in the case of opium the underestimation has been, as I have no doubt the Commission have been informed, deliberate. A figure was taken which was estimated to be the normal figure which would ordinarily come in as opium revenue, and any sums received in excess of that amount were to be put by for two purposes—two thirds

for the redemption of debt and temporary obligations of various kinds, and one third for various purposes, such as sanitation and education. That, I think, was definitely explained in the various statements both before and after it occurred.

8129 The revenue was knowingly underestimated to that extent, and it was stated so, is that the case?—I prefer to put it rather differently. It was stated that our opium position is most uncertain, we are not going to do a gamble in it, but we will take what we consider to be our normal revenue and enter that as our Budget figure, we shall very likely get more than that, and if we do get more than that we shall devote it to these purposes, it is not a normal item of revenue, it is a windfall, and it must be treated as such.

8130 Would that statement be found in the Financial Statement of the Financial Member of Council?—I think I am correct in saying it has appeared on two or three occasions.\*

8131 (*Sir Robert Chalmers*) As I understand it, you did estimate on a normal basis, even for your opium revenue?—I would not use the words "even for our opium revenue." The calculation was drawn up, I think, at the time when the last Treaty with China was made. A calculation was then made as to the amounts which, if exceptional circumstances did not occur, might be expected to be received from opium year by year with the diminishing export. That figure was put down ahead, I do not think the actual figures were published ahead, but the calculations were made ahead, and I think the Secretary of State agreed to them.

8132 Those figures appeared in the Budget?—Those figures have appeared in the Budget. There may have been a difference of a lakh or two one way or the other, as the figures were rounded off in the Budget.

8133 (*Chairman*) The figures given in the declared surpluses of India are not, are they, as large as the figures which you give in your memorandum?—I have looked at my Memorandum again (*Appendix XXIII*, page 577), it is liable, perhaps, to some misunderstanding. The figures which I give in my memorandum are not the actual surpluses, but they are the improvements in the surplus over the figures as originally estimated.

8134 I am not quite clear what you mean by "improvements" ?—If we estimate for a surplus of a million and we get a surplus of 4 millions, there will be an improvement of 3 millions, and the figures which I have given are the extent of the improvement.

8135 Can you explain to me the causes of those large lapses of capital expenditure? As I understand, they occurred both on the part of the central Government and on the part of the local Governments?—The lapses in capital expenditure on railways, do you mean?

\* See for example H.C. 155 of 1911 page 4

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Mr H F HOWARD, C I E

[Continued

8136 One of the reasons that you give for the large balances is failure to spend?—The largest item for lapses is that of the railways. I am really not in a position to answer as to that, as a railway man would be, but, generally speaking, I think the lapses are due to the fact that orders were placed in England for material and by the end of the year the material had not been supplied. In one of the years under review, that was very largely aggravated by the railway strike at home, which meant that some millions worth of rolling stock and bridge material were not delivered.

8137 In that case the failure to spend arises from inability on the part of contractors to earn, and not from any change of policy?—Not from any change of policy.

8138 Nor from any hesitation in placing their contracts or in going forward with their work?—That is so. The railway companies have on occasion complained that they do not know long enough beforehand how much they will have to spend. When lapses of that kind occur in England there will probably be supplementary lapses in India in connection with rolling stock or the putting up of bridge work when it arrives, such lapses must cause a corresponding lapse there.

8139 Do you think that any alteration would enable the railway programme to go forward with greater regularity and certainty? Could you for instance, give the railway companies earlier knowledge of the amount that would be made available for them?—That is a question which in that form I find it rather difficult to answer. An attempt is always made, I think, to give the railway companies as early a knowledge as possible. The Railway Board I think I am correct in saying, generally know about the end of August or the beginning of September the provisional figure which the Government of India will give the railways, and they presumably by then have got their estimates of requirements from the various railways before them, and are, or should be, in a position to distribute at once. That gives them approximately 18 months from the time of placing their order to the conclusion of the financial year to which their order relates.

8140 It is done, then, in the August or September of the previous year?—Of the year before that in which the money will be spent. There is something else to be said with regard to this question. Something has lately been done, in the last year at any rate, inasmuch as the Railway Board, or rather their accounts department, have been allowed to do what is called overcertifying indentations, that is to say, if they have had a grant for 5 millions, their accounts officer is allowed to pass indentations to a certain amount in excess of this as against possible lapses. Personally, I have always thought that something more might be done in the way of ear-marking railway lapses.

8141 What happens to the lapsed money at present?—It goes to swell the Government balances.

8142 It is not definitely allocated to railway expenditure, then?—No, it is not, but it has frequently been urged that it might be.

8143 In the case of the grants to local Governments which you mentioned, and which you said had in some cases not been spent, were those for railway construction also?—No. The local Governments, I think, have nothing whatever to do with railway construction at present, except possibly in the case of one little railway in Assam, and I am not quite certain whether that is still under the local Government or not.

8144 What would those grants be for?—They are mainly grants of the nature to which I have already referred for the non-recurring expenditure on education and sanitation. A lump grant is given, and the lapse with regard to this may occur in two ways. The lump grant may be placed at the disposal of the local Government when the Budget statement is made, that is to say, only a month or so before the close of the financial year, when it obviously cannot be spent.

8145 Is the Budget statement made a month before the year to which it refers?—It will be presented about a month before the year to which it refers. Grants made out of the anticipated surplus then obviously cannot be spent within that period. Then when the

year comes to which the Budget itself relates, the local Government may not wish to spend all this money at once. It has been given to enable them to build schoolhouses or to carry out some sanitary project, and it is not for recurring expenditure, and they may not wish to spend all that money in that year. Again, I imagine there are cases in which local Governments have recurring grants placed at their disposal for education purposes, but they may not be able to spend all of that at once, and of course it would be wasteful for them to attempt to do so.

8146 Am I right in understanding that in that case the money remains in the balances, but it is, so to speak, earmarked to that particular expenditure in the future?—I think it would probably be somewhat misleading to put the matter in that way, because, though the liability against the Government of India remains, the principle with regard to the balances has always been that the Government of India are the bankers of the local Governments and they can use the money whilst it is there in such a way as may be convenient for them at the time.

8147 In their published statement of accounts, are these claims against the balances shown?—I am not quite sure.

8148 (Mr Gillan) Do they not appear as balances to the credit of the local Governments in the general accounts of the Government of India?—I think that is so. I know they show at the end of each year the amount by which the local Governments have overspent or underspent.

8149 (Chairman) There have been many causes, no doubt occurring more or less often but still temporary in their nature, which have helped to swell the balances, such as, in the first place, failure to expend on certain services?—Yes.

8150 In the second place, the uncertainty which attached to the opium revenue and the special caution which it was thought desirable to exercise under those circumstances?—Yes.

8151 Besides that there is always great difficulty, is there not, in India in forecasting what the revenue of the following year will be?—Yes, that must always be so.

8152 It is very largely dependent on the monsoon?—Yes.

8153 Do you know whether the Indian Government have considered whether it would be advantageous to alter the date of their financial year to the 1st October say, so that they might have knowledge at least of the main monsoon at the time they were framing their estimates?—I have heard the suggestion incidentally mentioned, but I do not know whether it has ever been officially considered.

8154 What is your own feeling about it? Do you think it would be advantageous?—I think that it might very possibly have considerable advantages, as the position certainly ought then to be clearer, but it would require very careful examination, and there might possibly be some drawback to it which one is not in a position to see at the moment.

8155 Do you happen to know whether it is the case that they have made similar changes in Ceylon for similar reasons?—No, I do not know that.

8156 In your memorandum I think you say that whatever causes the large balances were due to, there is good justification for them on other grounds (page 578)?—Yes.

8157 Have those grounds been in the minds of the Government of India, do you think, or is this rather an *ex post facto* justification?—As far as the opium surplus goes to which I have already referred, that has obviously been in the minds of the framers of the Budget. But I do not think I should be correct in saying that those grounds had been very prominently before the framers of the Budget. That is a point on which I am really hardly in a position to speak for them. I should say an endeavour has been made to draw up our Budgets as accurately as may be, having regard to the various risks to which we have been exposed both with regard to famines and with regard to our opium position.

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Mr H F HOWARD, CIE

[Continued

8158. Do you think if the Government of India had made it a little plainer to the Secretary of State that these were rather specially cautious estimates, and that it would not be unreasonable to hope for better things, the Secretary of State might have been more ready to pay off some of the debt, or to pay off earlier, or, again, less ready to borrow?—I do not think that I should be correct in assuming that the Government of India at the time that these estimates were made, were over cautious, but, even if they may have proved to be so after the event, I should not like to say that it would have been wise to avoid borrowing the money that we have done as opportunity has arisen. We wanted it all.

8159 I thought you did indicate an opinion that the Secretary of State might have paid off debt a little more readily than he did?—I should explain that I was referring solely to the case of our temporary debt, which we had all along contemplated paying off out of our opium surplus.

8160 Is the Secretary of State—I am not now talking of private communications which I know pass between the Secretary of State and the Viceroy—kept officially informed of the fortunes of the year?—I think I am correct in saying that he receives a telegram every week from the Revenue and Agricultural Department about the condition of the crops.

8161 Would the Finance Department communicate as a matter of course with the Secretary of State in Council if there were prospects of the Budget estimates being largely exceeded?—I think that they are in constant telegraphic communication with him the whole time while the preparation of the Budget is going on, but it is some years since I was in the Department at the time when the final Budget preparation took place, and I am not able to say with certainty. I think there are very often two or three telegrams a day.

8162 I am not speaking of the moment of the final preparation of the Budget, but after the Budget has been passed and approved. Suppose that six months later the prospects had obviously improved, and a surplus could reasonably then be counted on largely in excess of the original Budget estimate, would the attention of the Secretary of State be officially called to that, or would he be left to gather it from such routine information as was sent home?—Are you referring to the position during the year to which the Budget relates?

8163 Yes. You finally settle your Budget in the month of February or March, and the financial year begins by the 1st April, suppose that by the 1st October there was reason to anticipate a surplus of 2 millions above the Budget estimate would that be brought directly to the notice of the Secretary of State?—I think it would be brought to the notice of the Secretary of State in this way, and obviously in other ways also. Before that time we should have been considering our railway programme and our programme for capital expenditure generally for the year after that, and in that connection we should be taking into consideration what our total balances would be at the end of the year under consideration. Any improvements, as they are technically called, in revenue of the kind to which you refer would, I think, then be directly brought to his notice in that connection.

8164 Suppose in the month of March it was decided, after communication between the Government of India and the Secretary of State in Council, that it would be necessary to renew bills for 2 millions in December, and suppose that by the month of October you saw that the prospects of the year were very much better than you had anticipated in March that might have a bearing upon whether it was desirable or right under the altered circumstances to renew those bills in December. Would considerations of that kind be officially brought to the notice of the Secretary of State by the Government of India?—I am not sure that the Secretary of State has ever consulted the Government of India in connection with the renewals of these bills, he may have done so, but I cannot say off hand whether he has done or has asked for information in that particular connection.

8165 You do not think he does?—I really do not know exactly what the position was with regard to those bills. I was not in the department at the time the question arose, and, though I have seen certain correspondence urging the Secretary of State to pay off the balance, I do not know exactly what information was supplied to him in connection with them.

8166 I gather you do not think that the caution exercised in its estimates by the Government of India misled in any way the Secretary of State as to the prospects of the year, or induced him to borrow more money than otherwise he would have done?—My impression is that it did not.

8167 Incidentally in your memorandum, paragraph 9, page 578, you defend the piling up of these balances on the ground that they have provided you with large amounts at the present time when the price of India 3½ per cent stock is low. That is a happy coincidence, is it not?—It is very largely a happy coincidence. I should defend them rather on the ground that they have enabled us to observe continuity in railway expenditure.

8168 And to that you attach great importance?—Yes, I attach great importance to that.

8169 As regards the possible loaning out of the funds in India, I believe the Government has offered to do that in the past on certain conditions, has it not?—That has been discussed on various occasions, I think as far back as 1899, and probably further back, there has been some discussion about it. On that occasion I think the Government of India were prepared to lend money to the banks, and the Secretary of State was willing to allow it, on the condition that they always retained sufficient funds to meet his drawings. I think I am correct in making that statement, but I do not think the correspondence is among the papers which have been shown to me. Subsequently when the question arose again, about 1905 or 1906, the Government of India were experiencing great difficulties in finding the rupees to meet the great demand for them that was going on at that time, and they represented to the Secretary of State then that there might be difficulties in making loans to banks, but I believe that when loans have been applied for on occasions of stringency they have been given. It is of course possible that they have not been applied for more, as the banks may generally have understood that any loans made would only be given at the bank rate.

8170 And on those terms there is no inducement to the banks to take the money?—There has not in recent years been any inducement, that is to say, money would probably have to be very tight before the Bank of Bengal would be willing to take money at 8 per cent or 9 per cent from the Government—at any rate, for anything but a very short period.

8171 Supposing the Government of India were willing to lend in the busy time have you yourself formed any opinion as to the amount which the banks would be likely to apply to them for?—I have tried to form some opinion, but without making enquiries I am afraid any opinion would only be guesswork. As a guess, I doubt whether the banks would be able to take more than, say, a million or 2 millions sterling at the outside, but of course I would not like that to be regarded as a definite opinion, as I have not been able to make enquiries.

8172 Would you think it wise for the Government of India to lend to anybody except the Presidency banks?—I think, if the exchange banks objected to loans being confined to the Presidency banks, it would be rather hard to meet their objections, as money has been lent to exchange banks and other people in England.

8173 Would you confine it to the exchange banks and the Presidency banks?—Yes, I think so.

8174 I presume you would expect them to deposit security?—Yes.

8175 The Presidency banks already have considerable Government balances free?—Yes.

8176 And you would not advise placing larger sums with them except against security?—Only as a *quid pro quo* for some service which the Government was going to get performed for them by the Presidency



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Mr. H. F. HOWARD, C. I. E.

[Continued]

banks, such as the free management of their promissory notes or something of that kind

8177 In that case it would be payment for services and it would not really be free—it would be the absence of interest that would give the payment for the services?—Yes

8178 In paragraph 17 (page 581) of your memorandum you refer to the question of giving the Presidency banks power of borrowing in London, do you regard the absence of that power as a serious injury to India?—No, I do not regard it as a serious injury. I think it might prove useful to the banks to have the power, but I will not say that I consider that serious harm is being done by them not having it

8179 Is it your idea that if they had that power they would bring money out from England in the busy season?—I think that on occasion it is possible that they might be able to assist the process which the exchange banks at present perform in bringing out funds to India

8180 Do you think there is any reason to suppose that the exchange banks do not bring money out as freely as the circumstances warrant? I will put it in another way—do you think they would be backward in bringing out the money if they saw their way to making a profit?—I was quite prepared to answer your first question. I do not think that. The point that has occurred to me—I have not sufficient knowledge of the banking business of the exchange banks to know whether it is a good point or not—is that they might have seen their way to making a bigger profit elsewhere. Some of these banks have branches in Hong Kong, China, the Straits, and, I think, in Australia

8181 So that their interests have not been purely Indian interests?—That is so

8182 And they might find it to their advantage to use their funds elsewhere?—Yes

8183 Even though India wanted them?—Even though money was tight in India it might be tight in other places

8184 It is only for a small portion of the year that money is tight in India?—Yes, I should say a small portion of the year

8185 We have had evidence that there is great difficulty in employing money at all in the slack months of the year?—That is so, but it is generally believed, I think, that the busy season extends over a longer period than it used to, say, 15 years ago

8186 Supposing that the Government of India were willing to make advances, have you any views as to the source from which they can best be made, had they better be made from the treasures or from the currency reserve?—I do not see any objection to their making advances from either their treasury balances, if they are able to do so without inconveniencing themselves, or from the currency balances

8187 We have had it suggested to us that in some ways the currency reserve might be the most convenient source. At the present time the issue of notes is directly regulated by statute, I think?—Yes

8188 And the fiduciary portion is fixed at a rigid figure by statute?—Yes

8189 Do you think it would be safe to increase the fiduciary portion?—I think with the currency reserve growing as it has done, it would be possible to make continual increases from time to time in the fiduciary portion, and I think probably some increase might be made now. In connection with the possibility of temporary advances from the currency reserve, I intended of course that they should be limited by the same considerations that permanent investments of the reserve should be limited by

8190 That they should be part of the fiduciary issue?—Yes, and that they should take the position of a temporary investment

8191 To what limit do you think it would be safe to go in the fiduciary issue? Should you fix the limit by a percentage either of the gross issue or of the net issue of the notes?—I have endeavoured to consider whether one might fix it in some way of that kind, but I have found it very difficult to think of any percentage figure which would in all circumstances be satisfactory. I should prefer to consider the position

from time to time after looking to all the circumstances of the time. The reserve has grown up so rapidly in the last few years that I find it rather difficult to generalise in that way

8192 In any case you think it might be possible, within whatever limits were fixed for the fiduciary issue, to make available a part of that money, not for permanent investment, but for temporary investment?—Yes, I think so

8193 And to use money so set apart for temporary investment for the relief of stringency in the busy times?—Yes

8194 In paragraph 44 (page 590) you put in an opinion of the late Sir Clinton Dawkins on that subject, but I think you do not altogether agree with it?—No, I do not altogether agree with it. The point made by him was that the general taxpayer would be a loser

8195 The point made by him was this rather, was it not that if you could invest money at all you could invest it for 12 months, and that if you could afford to invest it for 12 months it would be earning less interest if you invest it for only three months or any short period?—Yes

8196 In the busy season I suppose, the active note circulation tends to rise?—I think I am correct in stating that it does

8197 So that just at that period of the year you have not much reason to fear that notes will be brought back for encashment, I mean on balance?—We have got such a large margin that there would be no risk involved in loans of a relatively moderate amount being given

8198 What I was going to suggest to you was that it is in the busy season of the year that people take out notes, and it is in the slack season of the year that they bring back notes, on balance, therefore, in the busy season of the year the call on your reserves for the encashment of notes would be less, and your power to lend would be greater, do you follow that?—I follow that, but I am not quite certain of my facts as to the extent to which the actual circulation of notes with the public extends in the busy season

8199 If I am right in my premise, I am right in my conclusion, am I not?—Yes

8200 Am I right in inferring from what you say in paragraph 19 (page 582) that you think the amount of rupee loans issued in India in recent years could have been considerably increased?—I speak there of "some what larger loans." I think it might be safe, for instance, to try to raise 4 crores as against 3 crores, but I do not think we could put a loan of 6 crores on the market and hope that we could get it taken up

8201 Are you entirely dependent on the banks taking up these loans, or do you get a direct response from the public?—We are mainly dependent on the banks, though there have been occasions on which other gentlemen, I believe, have taken considerable interest in the loans

8202 What is the policy of the Government of India in respect of loans? Is it their policy to place as much as they can in India?—Yes, it is our policy to place as much as we can in India. I imagine it might have been possible perhaps to have placed more in the last two or three years, and the reason that was not done was probably the fact that our balances were so high that it was not considered necessary to skim the market in that way. Generally speaking, the principle is correct

8203 I gather that in your opinion the fixing of the rupee at 1s 4d. has been beneficial to India?—Yes

8204 Do you think that is the general opinion in India?—I think so among unbiased people who have really thought about the question, but it is rather difficult to say what is the general opinion in India about anything

8205. The Committee of 1898 recommended that India should have a gold currency in active circulation, do you think that desirable?—I think it is desirable if gold is wanted by the public to let them have it, and it is desirable for the Government to be in a position to honour both their notes and their rupees by gold, if they are called upon to do so

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[Continued

8206 I quite understand the view that it is desirable that the Government should be in a position to give the public whatever it demands?—I can quite see that there is something in the argument which is generally used in support of a gold currency, that it will mean that the liabilities of Government for the redemption of rupees are less if gold is in circulation instead of rupees which would otherwise have been coined.

8207 On the other hand, would it not mean that the reserves which the Government have to meet those demands, are less also? I will take it by stages if you put rupees into circulation you increase the Gold Standard Reserve by the profits on the coinage, that is so, is it not?—Yes.

8208 And if you put notes into circulation you increase the currency reserve?—Yes, but the position is not the same. In the case of your currency reserve you have got a metallic backing for a considerable portion of it—in fact, for the main portion of it. With regard to your rupees in circulation, the profit on coinage amounts at most to about a third, and the higher the price you buy your silver at the less your silver is, and the smaller the proportion your reserve forms.

8209 The only way in which you can increase those two reserves is by increasing either the note circulation or the rupee circulation?—Yes.

8210 If, on the other hand, you put the gold into circulation those reserves cease to increase?—Yes.

8211 Which is more valuable for the maintenance of exchange—a million in your reserve, or a million in circulation in gold?—In my opinion the million in the reserve would be more valuable.

8212 Do you think that if gold were in circulation it would serve largely to support exchange in a time of crisis?—I am very doubtful about it, but that is a point on which I think it is impossible to form any final or definite opinion.

8213 As far as the experience of 1907, 1908, and 1909 goes, what is the inference you draw?—I think at that time, though a considerable amount of gold has been absorbed, there was very little actually in circulation.

8214 At that time the Government of India gave up, I think, something like 4½ millions of gold?—A great deal of gold was taken.

8215 Of that 4½ millions there was actually exported, I think, only a quarter of a million?—That is very probably so, but I am not sure of the exact figures.

8216 Possibly another portion of it may have gone to prevent the import of gold?—Yes.

8217 But it is only to that extent that that 4½ millions served to support the exchange at that crisis?—To the extent to which it prevented the import of gold.

8218 Either to the extent to which it was exported or to the extent to which it prevented the import of gold?—It seems to me that it would always be valuable for Government to hold gold for that special reason. There will always be a demand for gold, and if Government does not meet it it will have to be found elsewhere. By meeting that demand you help to keep up exchange to a certain extent. Whether it is as valuable a weapon as selling sterling bills on London or not I am not sure, but at any rate I think it is a valuable weapon.

8219 If such a crisis arose again, I infer from that that you think the Government of India ought not to hesitate to use its gold freely, both in London and in India?—Yes, that is my opinion.

8220 Would you be prepared to say that if you had your free choice as to whether the gold should be in circulation or in reserve, you regard the use of it in circulation as comparatively wasteful from this point of view?—I should regard it as only comparatively wasteful, because it may have its uses. So far as one can judge, gold would not come back from circulation for export but it might. It is rather difficult to answer that question, because we have tried to find out

what happens to gold in India when it is absorbed, and we know really not nearly as much as we should like to.

8221 Does the Government of India, as far as you know, act upon the principle that you suggested just now in one of your answers, that they should give the public whatever they ask for without trying to force one form of currency rather than another?—So far as I am aware, that principle is acted upon. I do not know whether in some sub-treasuries it is always possible to give the coin that is required, but I imagine it is.

8222 I ask the question because we had it in evidence yesterday that in certain places, Lahore was one of them, if a bank applied for a currency transfer from Calcutta to Lahore, they were favoured to the extent of ¼, if they took gold rather than rupees?—I am not able to say whether that is correct or not, I have not heard that.

8223 Speaking generally, what is your view about a gold currency? do you think it is a necessary concomitant of a gold standard?—I do not think it is necessary but I consider that it is most desirable that an endeavour should be made to meet any demand for gold that there might be on the part of the public. I can conceive of theoretical systems in which there is no gold currency, but I doubt whether it is practicable at the present time.

8224 If you had your own way to do exactly as you pleased, would you induce the people to take gold, or would you try to induce them to take notes and rupees?—I think I should have a certain sentimental desire to let them do as they like.

8225 That is not exactly an answer to my question, is it?—It is not that I do not want to answer any question put to me on the subject, but I feel that if you refuse to allow the public to have gold when they see that you have got it, there is always liable to be mistrust, and if there is a demand for it, I think we ought to let them have it.

8226 But apart from special circumstances with which you are not acquainted, you would not go so far as to put a premium on their taking gold?—No, I would not do that, but in cases in which gold is not immediately available there is always great public inconvenience. For instance, I believe, in France only a few months ago, if one was travelling on the Continent, it was very difficult indeed to get any gold, you got 5-franc pieces. That was only last Christmas.

8227 So that you rather infer from that that civilised countries get along with a comparatively small gold circulation?—Yes.

8228 If India has a circulation which is mainly a token currency, she is not peculiar in that?—No.

8229 Now as regards the question of the establishment of a gold mint in India, what is your view on that?—I should like to see the experiment tried. I put my answer in that form intentionally, as a great many people have said that they object to it being called an experiment.

8230 You consider that it would be an experiment, but one which you would like to see tried?—I would like to see it tried because we may get gold presented, or we may not, but I think that the probability is that in time gold will find its way to the mint, and if there is bullion, or if there are ornaments, that people wish to take to the mint, I think the mint ought to be there to deal with them.

8231 I suppose if they took those ornaments now they could get bullion value for them without difficulty?—From the bank or from a jeweller I suppose they probably could.

8232 Do you think they would have any difficulty in getting sovereigns in exchange for bullion in the form of ornaments?—I think the circumstances in which bullion might want to find its way to the mint would be those in which there would not be a large number of sovereigns available—that they would have been drained out for export, or that they would have disappeared. I am talking of the bullion and ornaments from the hoards, not of bullion which is imported by the banks, as I think your

\* See Appendix XXIX, page 633, in this connection.

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question related to the bullion and ornaments coming out of hoards

8233 Yes What would be the circumstances in which that form of bullion would be likely to come out—would it be under something like the pressure of famine?—The circumstances are, of course, theoretical, but we are dealing very largely with a theoretical question I meant such circumstances as a famine

8234 Your idea is, then, that they might bring out gold bars, or gold ornaments, and if there was a mint open, take them there to be coined into sovereigns?—At any rate they would be bought up and the person who bought them would be able to convert them into coin

8235 What would he do with the coin when he had got it?—I do not know what he would do I do not know who the "he" would be If "he" was the bank, they might want to export it

8236 If he was wanting to export it, would not bullion be just as useful for him? Would not the gold bars be as useful to him for that purpose as the gold sovereigns?—I do not know that he would get any large gold bars held in hoards I am talking more of the small trinkets and ornaments which would come out of hoards, and might gradually find their way through the local mahájans, and so on to head-quarters, and there want some outlet

8237 Do I understand you to think that the opening of a mint would, under such circumstances, give a power to the peasant to realise the value of the gold that he has got which he cannot now exercise?—I do not think I could press the contention that the peasant could not sell his gold for money, and I do not think I meant to say that

8238 You do not think the advantage of it would get down to him in any way, then?—I suppose the peasant with hoards could get money for his ornaments, but it is more on theoretical grounds as regards the peasant I think the word "anomalous" which I used rather implies that it is a theoretical objection

8239 (Mr Keynes) Would it meet your point at all if the Government were to re introduce the notification which I think existed in 1906 by which rupees were issued against gold bullion?—Yes, it would to some extent

8240 In that case your peasant could bring his ornaments and get rupees for them?—And then leave it to the Government to export the gold bullion and re import sovereigns in its place?

8241 If it wished to do so?—I think it would meet my objection on one ground, but would it not be rather introducing a new function for Government as dealers in gold bullion?

8242 (Chairman) Am I right in concluding that your reasons for a mint are rather theoretical and sentimental than practical—that you approve it, rather because you find it difficult to argue against it in theory than because you believe any great practical advantage would accrue from it?—I think that practical advantages may conceivably accrue, but I think it is a duty which we owe to the public, if they present bullion when we have nominally a gold standard, that we should be prepared to convert that into coin It might be a practical inconvenience if it is on a larger scale than the small ornaments which I mentioned as a theoretical anomaly

8243 Would you propose to charge seigniorage on the coming of sovereigns?—No

8244 They do in Australia?—I believe in Australia the mints were introduced not in order to supply currency but as a convenience to the mining community mainly I believe that was the objection urged by the Royal Mint at home at the time when our proposal was first put forward with regard to the opening of an Indian mint

8245 On the other hand, South Africa, the country where the greatest amount of gold is now produced, has not thought it necessary to have a mint, so far at any rate?—That is, I believe, the case

8246 Does not that affect your argument? Are you still desirous of it?—Yes, I think we ought to

place the facility in the way of the public in case they desire to use it

8247 So far you have rather suggested that it would not be much used at any time, and that if it was used at all it would be used only in bad times?—It might only be used in bad times, on the other hand, the Indian mmes at present produce, I believe, about 2 millions pounds worth of gold a year, which is exported, and it might be convenient to them to pass their gold through the Indian mints

8248 Do you happen to know at all whether they are still under contract to send their gold to England?—I understand they used to be, but I do not know what the present position is

8249 Coming now to the Gold Standard Reserve, I think it is your view that a larger sum should be held in actual gold?—Yes

8250 Will you give me your reason for that?—If Government merely holds securities and sells them it may put them in funds to some extent, but it affords no relief to the market If they are actually in possession of ear marked gold, they are both in a position to utilise that, and to help to relieve to that extent a financial stringency which may exist Apart from that there must, of course, always be a considerable loss in a great crisis by the sale of securities

8251 Are you disposed to name any figure as the minimum amount of actual gold that ought to be held in reserve?—I would rather consider the question from time to time as time goes on, but I would like to see 10 millions, at any rate, held, and I would not mind seeing 15 millions

8252 Under the present circumstances?—It is to be 5 millions at present

8253 Would those figures you have mentioned be under present circumstances?—I would not sell our securities out in any hurry, but as the reserve is built up I would like to see those figures gradually got to

8254 I think you approve of the location of the major portion of the Gold Standard Reserve in London?—Yes, provided, of course, that we also hold sufficient gold in India in some way or other

8255 Do you approve of the existing Indian branch of the Gold Standard Reserve?—I should be quite willing to see that changed into a gold reserve and the rupees transferred to the Paper Currency Reserve, but I do not consider the matter of any great importance, one way or the other

8256 What is the reason for keeping rupees in the Gold Standard Reserve in India?—This reserve was originally formed, I think, in 1906, or thereabouts at a time when the Paper Currency Reserve was not nearly as large as it is now, and when there was a very great demand for rupee coinage It was found very difficult to hold a sufficient reserve of rupees in the Paper Currency Reserve in addition to the gold that was accumulating there After the Government of India had first tried the experiment of holding, I think, a silver mgot reserve within the Paper Currency Reserve, and had suffered very grave inconvenience in spite of this arrangement, they decided to constitute this extra reserve of rupees, and also to hold it as part of the Gold Standard Reserve

8257 To that extent it was a departure from the original purposes of the Gold Standard Reserve?—Yes

8258 It was, in fact, using the Gold Standard Reserve in order to give elasticity to the currency?—Yes

8259 But you think whatever practical reasons there were for it have passed away, and there would be no objection now to transferring that silver to the Currency Reserve, with a corresponding transfer of gold from the Currency Reserve to the Gold Standard Reserve?—Yes

8260 You observe, in your memorandum (page 537, paragraph 33), that you do not approve the action taken in 1907, when funds previously allocated to the Reserve were used for railway development in India?—Yes

8261 You add, that it had the great incidental disadvantage of causing the public to have grave misgivings as to the policy of Government in regard to the treatment of the fund, you would, I suppose,

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agree that to secure the confidence of the public is of the utmost importance in this matter?—Yes

8262 Do you think that the public would have greater confidence if the management of the Gold Standard Reserve were subjected to some statutory conditions and safeguards?—I do not think it would make any great difference to them. I am not quite certain what kind of safeguards would be proposed.

8263 That is a question I was going to put to you if you had favoured a statutory regulation. All I meant to suggest at the moment was that it did seem, in your view, that some want of confidence had been caused, not by the insufficiency of the Reserve but by the handling of the subject by the Government?—Yes

8264 Possibly, if statutory lines were laid down which it was known that the Government must comply with, the public confidence in the maintenance of exchange and in the general policy on this subject of the Indian Government would be strengthened?—I do not think that would be necessary, provided a clear and definite statement was made by Government to the effect that they would hold a supply of gold and a total reserve which would command confidence.

8265 In regard to the possibility of a State bank, I gather that you have not formed a very strong opinion one way or the other?—That is so.

8266 And that your ultimate decision would be very much determined by the kind of scheme that might be proposed?—Yes. It is a matter which one would like to discuss with a great many people, for instance, bankers and so on.

8267 Is it a subject to which you have had occasion to give special study?—No. I have read the papers and various discussions about a State bank, two or three times, at various periods.

8268 Under the circumstances, therefore, would you desire to express to the Commission any opinion as to either the advantages or the disadvantages, or the conditions which should attach to such a bank, beyond those which you have printed in your memorandum?—I should prefer to say nothing about it, because it is a subject on which I have got no practical knowledge.

8269 (*Sir Robert Chalmers*) I will ask you one question, if I may, on the subject of the sale of Council Bills. The par of exchange being 1s 4d and there being specie points, one for export on one side and one for import on the other side, would you leave exchange to find its natural level within those two specie points and sell your Council Bills at the selling rate that was obtainable in the market, or would you be disposed never to sell under a certain figure, say, 1s 4d, irrespective of the specie points?—I should adopt the first course that you have suggested, subject, of course, to the fact that it would be desirable when exchange falls to cut down your offer of Councils, as is done at present.

8270 But on principle, subject to prudence and common business methods in dealing with the moment, you would follow that general scheme?—Yes.

8271 You would not be prepared to take the other line of saying, under no circumstances will I sell, say, under 1s 4d?—I should not. I think a great many of the criticisms in connection with the present practice leave out of sight the fact that, if you never sell under 1s 4d, you may find there is a large balance of trade against Australia, and then all the Australian sovereigns will come to India and swamp India. It is the gold export point from England that you have named, and it leaves out the fact that it may still be profitable to send sovereigns from Australia or from Egypt.

8272 Do you think that if the opposite policy, which you do not favour, were pursued of never selling under 1s 4d the Government of India could get the amount that it has at present to cover by Councils? I suggest that would depend upon the circumstances perhaps of the given year, but there is by no means a certainty that they could get it across?—I think I am right in saying that either last year or the year before was the first year, for many years at any rate, in which the Government did not sell at some period of the year under 1s 4d.

8273 Suppose the Government of India and the Secretary of State in Council decide to make a change in the financial year, taking the 1st October as the starting point, that would mean that you would have an odd six months to get right before you got on to the new financial year?—Yes.

8274 As a practical man, in dealing with such a position would you not be disposed to begin by taking a budget for six months?—You mean to cover the transition period—for six months, or for 18 months is the alternative course.

8275 I am anxious to get your opinion?—I should be inclined, I think, subject to further consideration, to make a rough budget for the six months.

8276 You would be, of course, in a easier position then, because you would have only one unknown instead of two unknowns to guess at as compared with budgetting for 18 months?—I do not think it would be practicable to make your six months' budget in the same detail that the yearly budget is made in. I should be content with a rough budget for those six months.

8277 You would do it for six months?—I think so, that is to say, subject to further consideration.

8278 (*Sir Ernest Cable*) There is one question that arises out of your answer to the Chairman about lapsed railway grants. It is rather difficult, is it not, for the Railway Department to spend the large sum of 10 to 12 millions at a year's notice, and lapses must occur under the present system, must they not?—I think there was very little lapse this last year when the grant was actually raised during the course of the year. I do not know exactly what the figures were.

8279 It was suggested to us by one of the witnesses that to employ these lapses, and to let the Railway Department know exactly what they have to spend, the Government of India should make out a 5-yearly programme for the railways, letting the Railway Department have 12 millions a year or whatever the sum might be, for five years, and letting them share in any surplus that might accrue. Would that be a practicable suggestion?—I do not think that that would be practicable, unless a separate railway fund was created, or some definite arrangement of that kind was made to secure continuity.

8280 Would you favour the plan, or would you not, of having a separate railway fund?—I do not think I would like to go quite so far as that, but while not being prepared to go quite to that extent, I should like to see our balances high, in view of the additional permanency which we would get for our capital expenditure. High balances such as we have got now, are an assurance that our railway expenditure will be more regular.

8281 Then you are not in favour of the close budgetting which has been talked about, and you rather like these heavy surpluses?—I think very close budgetting is impossible and dangerous in India.

8282 You would like to err on the side of caution?—Yes.

8283 I notice that in the part of your memorandum referring to the question of the amalgamation of the Gold Standard Reserve and the Currency Reserve, you do not object to the amalgamation on principle but merely because you think it might shake public confidence (page 587, paragraph 36)?—I think I do object to it on principle, and I think the fact that it might shake public confidence was only one reason for objecting to it. My own view is that they are intended to serve two different objects, and each Reserve must be managed in such a way as to ensure its securing its own object.

8284 But the one Reserve is frequently used to secure the object of the other Reserve?—If that advantage can be incidentally obtained there is no particular objection to it.

8285 (*Mr Keynes*) Why are the railways not allowed to carry over unspent balances from one year to another?—I find that a very hard question to answer because I have always thought myself that it might be possible to allow it. I have always thought personally—I am not expressing this as the opinion of Government but as my own—that it might be possible

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to arrange for the railways to carry over unspent balances

8286 What are the reasons, good or bad, which influence the Government in adopting the opposite policy?—It has been held, I believe, that it would affect the general Government ways and means programme

8287 In paragraph 25 of your memorandum (page 585), with regard to the competition between notes and gold, you say that there is no "suggestion of" endeavouring to extend the circulation of gold to "any extent at the expense of notes" If you take a long view, is not the circulation of gold almost necessarily at the expense of notes?—It may be to some extent at the expense of rupees

8288 Is it credible that over a long period people will continue to use rupees for large payments? Is not their inconvenience so great that their use must be something which will disappear in the course of time?—That is theoretically so, but in India we find that things which are theoretically correct are not always practically so

8289 Is that not the actual experience? In Northern India, and some other parts, are they not getting into the habit of using gold instead of rupees, and in Bengal, and certain other parts, are they not getting into the habit of using notes instead of rupees? Is there not a general tendency to use some substitute for rupees in the case of large payments?—That is so to some extent There is also a very rapid concurrent increase in the rupee circulation

8290 I was not asking about that point I was asking about the use of a particular form of exchange for large payments and for remittance Would you maintain that there are some parts of India in which, taking a long view, it is incredible that paper should be used, and therefore that gold must necessarily be the substitute for rupees? Are there any parts of India of which you would say that was the case?—I should think it probable that there must be some competition between gold and notes

8291 My point is that it is useless to say that we should like gold to circulate, but we do not want it to be at the expense of notes, because *prima facie* there must always be a tendency for any gold which circulates to replace notes to some extent in the long run Would you agree to that?—I am not quite certain that I can answer your question by an exact Yes or No I do not think I have suggested that we should attempt to force gold into circulation at all I would be quite happy to see it there, but I do not think it is essential, as I rather think you imply is my opinion, that we should have a large gold circulation, and I do not think the Government ought to take any steps to force gold into circulation

8292 Do you think they would be right to take steps to popularise notes?—They have taken steps to popularise notes, and I think they have been perfectly right in doing so

8293 And would be right in taking further steps if such were available?—Generally speaking, yes, if such steps are legitimate I should like to know what steps it is proposed to take

8294 Such steps as opening additional currency offices?—I think so, and I think the Government are generally taking steps to do that I know one or two cases in which they have been improving the position of the currency offices

8295 Would it be wise or foolish to take similar steps in regard to gold?—The steps which have been taken with regard to notes are unnecessary with regard to gold, I mean gold is a universal legal tender, and always has been since our present currency system was adopted

8296 I was not asking about legal tender In popularising notes, one of the things you can do is to make them available in more places?—Yes

8297 You could also do that if you like in regard to gold?—I think notes are available at practically all our sub-Treasuries all over India

8298 I am not asking a question of fact, I am asking a question of policy You have agreed that it would be wise to make notes available at more places,

would it be wise to make gold available at more places?—I am not quite certain that my statement was that I agreed that it would be advisable to make notes available at more places I think we should take steps to supply notes where required, and if our present arrangements are inadequate, I think we should undoubtedly consider the question of improving them But I do not know that I have made any admission that they were inadequate

8299 You are not prepared to make any more precise statement on this question?—No I am all for popularising notes and taking any steps that may be useful in that direction, but I do not think it is necessary to force either notes or gold down the throats of people who do not want them If people prefer to take rupees, I should let them have that coin

8300 The drift of my examination is that it is not really possible to take a neutral attitude Whenever the Government opens a new currency office they are helping notes, and whenever they send large consignments of gold up country they are helping gold Unless both were available with complete facility in every centre in India, which is not the case, a perfectly neutral policy is not conceivable?—Apart from more currency offices I think I may say that in nearly every Treasury and sub-Treasury in India there is a supply of currency in three forms—gold, notes, and rupees, and they are generally available to the public I do not think that Government at present are favouring any one form as against the other

8301 But they are not available, if I may say so, both ways round, you cannot encash them freely everywhere?—I do not know exactly what conveniences in the form of encashment are provided

8302 In paragraph 27 (page 586) you say that you do not think the Government "should attempt" to husband the supply of gold by refusing to give it "out when available" Do you mean by that that at a time of crisis they should give out gold in India?—Yes, freely

8303 You do not think that they should keep their gold for the purpose of supporting exchange solely?—I consider that would tend to support exchange In answer to a question by the Chairman I think I expressed that view

8304 Do you think it supports exchange as completely as if it is used for export?—No I think I have already stated that I thought it would not have the same direct effect, but it would be a valuable weapon

8305 But not equally valuable?—I do not think it would be equally valuable

8306 In that case why are you in favour of supplying gold in such circumstances?—We do not want to see sovereigns in India go to a premium, as I think that is rather a confession of weakness For some years after the 1907 crisis I think sovereigns were at a premium of about 3*l* or 4*l*. Shield sovereigns, I think, are still at a premium, but that, of course, is a fancy price

8307 (*Chairman*) The shield sovereign is a question of ornament, is it not?—Yes, I think so

8308 (*Mr Keynes*) Do you think it would be wise to pursue that policy even at a time of crisis, bearing in mind the fact that the premium could be no more than the cost of importing sovereigns from England?—If adequate reserves are held I hope it will never come to that. That is one of my reasons for wishing to see our reserves rather stronger than they are at present

8309 (*Sir Shapurji Broacha*) According to paragraph 5 of your memorandum, page 577, in 1910-11 there was a lapse of 3 millions, and in that year the railway programme was 9½ millions?—Yes

8310 Was the 3 millions carried to that 9½ millions for railway works, or was it eliminated altogether?—You can say either that it was included in the 9½ millions or that it was eliminated altogether The 9½ millions was the total amount

8311 Therefore, if the previous year's figure was taken off, it would amount only to 6½ millions for that year?—I suppose it comes to that. But it is 6½ millions in addition to expenditure which had been

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contemplated in the previous year, but had not been incurred

8312 If the lapsed amount was included in the 9½ millions, then you were not authorised to spend in 1911-12 12½ millions?—No, it was 9½ millions

8313 Would it not be an advantage that this lapsed grant should be carried forward in order to have a continuous programme to spend, say, 10 millions or 12 millions annually?—I have already expressed the view that if that could be arranged I should like to see it

8314 What is your opinion about these lapsed grants? Should they not be added to the next year's provision?—If it was practicable I should like to see arrangements made for carrying forward such lapsed grants. At present the arrangement has been adopted of over certifying railway indents, which should to some extent in future operate to prevent lapses on the same scale in which they have occurred before. I think that was adopted during the course of last year or slightly earlier

8315 The Chairman suggested the changing of the budget date to October, that of course would be an impediment to the Governor coming down to the plains. What is the nature of the climate in Delhi in October, is it getting cool?—I have not heard that towards the end of October the weather is getting worse

8316 Dealing now with the suggestion that the Presidency Banks should be given liberty to borrow in England, I do not think it would be an advantage to them to bring money out to India unless they can remit back in export bills, because otherwise the cost would be very great. If they brought it for six months, it would cost them 1½ per cent to get the money out to India and to take the money back for payment in England. It would therefore cost them 3 per cent more than the 3 per cent charge for the loan, because, of course, 1½ per cent for six months is 3 per cent per annum. Even if they were to borrow for 12 months they would have to add 1½ per cent for bringing it to India and taking it back to England. Therefore, if they were allowed to borrow, it would be no advantage to them unless they had the privilege of buying bills for export?—I understood that the Presidency Banks at one time were very anxious to get that liberty of borrowing in England

8317 They were, but I do not think they would take advantage of it, if it were given to them now?—I stated in answer to the Chairman, that I did not think the absence of the power to borrow was a serious defect at the present time

8318 If they were to buy export bills, then they would come into competition with the exchange banks?—Yes

8319 And the exchange banks, I suppose, would object, because the Presidency Banks are subsidised banks, and therefore the exchange banks would not have any play?—I presume the exchange banks might object

8320 I gather that you are in favour of a mint in India?—I am in favour of it

8321 Not for any practical advantage that might arise from it, but in order to satisfy the sentiment of the people?—And I can see that theoretically and possibly practically there might be certain advantages. I would like the experiment of a mint to be tried

8322 You do not mind spending a certain amount of money, and afterwards scrapping the machinery, for the sentiment of the people?—I am afraid we should have to undertake the necessary expenditure in that case

8323 Which coin do you prefer?—I should prefer the sovereign

8324 Not the 10 rupee piece?—No

8325 You say in your memorandum that you are in favour of exchange at 1s 4d?—Yes

8326 Let us take this instance. Australia, remits gold as merchandise because it has gold mines, and South Africa also remits gold as merchandise. The value of a sovereign in London is a sovereign and nothing more, and the remitters have to pay freight, insurance, interest and commission?—Yes, that is so

8327 So it would be an advantage, instead of sending the sovereigns here, to send the sovereigns at the same rates to India, because they would have 24 days less interest to pay, you could for instance, have sovereigns in India from Fremantle in 11 days whereas it would take 35 days to send them to London?—Sovereigns do come very largely from Australia to India

8328 Suppose the Secretary of State were not to sell bills up to September, and the banks satisfied their needs in India by Australian sovereigns, what would happen then?—The amount of the Australian sovereigns available varies very much from year to year

8329 I know that in six months two years ago they sent about 11 or 12 millions of sovereigns?—The figure was very large the year before last

8330 In that year the Secretary of State did not sell, say, until October under 1s 4d, and at the end of September the Secretary of State found the conditions of India were famine conditions. The Secretary of State had not taken advantage of the market rate, and he was short of funds to the amount of 17 millions. Is it a good policy if you stick to the 1s 4d?—I did not entirely understand your question (i.e., 8325). I assumed that when you asked me whether I approved of the fixing of exchange at 1s 4d, you meant whether I approved generally of the fixing of the rupee at 1s 4d?

8331 It is just the same. The Secretary of State must sell at exchange value, that is to say, at par value, to and fro, and not stick out for 1s 4d at any time?—I agree. I must apologise for having misunderstood your question. I thought you were asking me generally if I agreed with the policy of fixing the rupee under the gold standard system at 1s 4d, and I did not understand that you were referring to this other point

8332 You would agree that the Secretary of State must meet the market?—I quite agree with that

8333 Do you know that the Currency Department refused to give sovereigns from 1908 to 1911, and that they did not resume giving sovereigns till 1911?—It was either the end of 1910 or the beginning of 1911

8334 Did it create a mistrust of the currency because sovereigns were not given against rupees, do you know of any dissatisfaction in India about that?—"Dissatisfaction" is rather a difficult word to apply, I think, to the position. I think I have seen the weakness of the Government's position criticised in that they were not able to meet any demand for sovereigns

8335 I do not remember seeing anywhere in the newspapers the Government's position being criticised?—I cannot remember definitely at this date, but I think I am correct in stating that some of the banks addressed Government on the subject. Government at that time, when their reserves were not so full, limited the amount they gave out to parcels of 10,000 sovereigns

8336 The Exchange Banks did complain when the Government put the value down to 1s 3½d, and they petitioned the Secretary of State here but so soon as the par of exchange rose to 1s 3¼d, I think the complaint ceased, and that the stopping the giving of sovereigns was subsequent to that complaint?—I can not cite any particular newspaper at the present moment, but I have certainly been under the impression that the Government's position in having no sovereigns in India has been criticised as being a position of weakness

8337 Do you not remember a newspaper criticising the position which the Secretary of State and the Government of India created by breaking the par of exchange? I know that criticism was very serious and very severe but I do not remember between 1908 and the end of 1910, or the beginning of 1911, any criticism or complaint for refusing sovereigns against the tender of rupees, because Government had a statutory power to refuse?—I am under the impression that criticisms were made

8338 But the Government had statutory power to refuse to give sovereigns?—They have always retained that power

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8339 If the Government were to commence to refuse giving sovereigns now, notwithstanding having them in the Currency Reserve, I think we may infer from that that there would be something like two years during which there would not be any complaint, and that the people would get accustomed to these large reserves, as being the intention of the Government?—I really do not know whether people would get accustomed to seeing these large reserves of gold or not. I am afraid that the action of the Government in holding large reserves of gold and failing to give it out when required, would meet with criticism.

8340 If the people became aware of the intention of the Government to make as large a gold reserve as possible for the benefit of exchange, I do not think there would be much complaint?—It is possible that the complaint might not be very —

8341 Serious?—Noisy, I would say.

8342 They are accustomed in France not to complain, but to take 5 franc pieces for all debts?—It is an inconvenience, though, that you can only claim 5 franc pieces when you are travelling on the Continent.

8343 Would not the people get accustomed, like the French people, to use silver?—I did not get accustomed to it.

8344 Would it not be better that the Government should keep the gold, when they know that it is not to the people's disadvantage, rather than that it should be the custom that the people should receive sovereigns, and then that should be stopped all of a sudden?—My position is that the Government reserves should be sufficiently strong, so that it would not be necessary for them to stop all of a sudden.

8345 (Sir James Begbie) You have told us that the standard of India is nominally a gold one?—Yes.

8346 In paragraph 26 of your Memorandum (page 586), you have discussed the question of the exchange standard, is it your suggestion that the currency of India is being conducted on the lines of an exchange standard?—It has been conducted largely on the lines of an exchange standard, I think, inasmuch as Government has now practically undertaken to maintain exchange by the sale of sterling bills on London, when exchange falls to 1s 3½d. My own view, as I think I have already stated, is that Government should also be prepared to meet demands on it for gold. That is not a necessary concomitant of an exchange standard.

8347 So far as I understand you, the present system is an exchange standard in its working?—The means adopted by Government to support exchange have been, and must, I think, necessarily continue to be, those which would be necessary to work an exchange standard.

8348 I want to see how far that applies to the Indian system. You explain this exchange standard to mean that the local currency is not necessarily redeemable in gold, but that it is kept near a fixed par with gold, by control by Government of the foreign exchanges. Do you mean that the control is exercised by the sale of bills?—Yes, that is what it comes to.

8349 When you say the scheme is to keep the local currency near a fixed par of gold, do you mean a fraction above or a fraction below par?—I mean within the gold point on one side or the other.

8350 The local currency you refer to would, I presume, include the note issue in India?—As a matter of practice I suppose that must be included. Though the exchange standard is concerned primarily with the rupee currency, the Government is, of course, equally committed in respect of the paper currency.

8351 You have already said that Government should have the option of redemption in either sovereigns or rupees?—Yes.

8352 Owing to the great increase in the note circulation, a considerable portion of the coin reserve is now held in sovereigns in the Paper Currency Department, is it not?—Yes.

8353 I think you have already told us also, that the gold held in the Paper Currency Department is the most satisfactory gold reserve held by Government from a currency point of view?—I do not know that I made that statement. What I intended to state

was that, provided Government holds a sufficient reserve of gold in India, I do not regard it as very material whether they hold a separate branch of the Gold Standard Reserve there, or whether they hold the whole amount which is necessary for their purposes in the Paper Currency Reserve.

8354 The point I wanted to bring out was that in the case of the Gold Standard Reserve there is only one-third of the currency saved in the form of gold reserves?—That is so.

8355 But in the case of the Paper Currency Reserve you get the whole of the gold saved?—Yes.

8356 Would you say that these gold reserves in the Paper Currency Department have been accumulated by the Government controlling the foreign exchanges?—They have accumulated as the result of the action of the Secretary of State in limiting his Council bills to a certain extent, but I do not know that it could be said that the Secretary of State's action in limiting his bills was a control of the foreign exchanges.

8357 For the time being he has ceased to control foreign exchanges?—That is a matter of definition, I think.

8358 At any rate, so far as this reserve is concerned, the gold which has come in must have been imported at gold import point?—If gold comes in from England it must come in at the gold import point, but gold may come in from Australia, I imagine, below that.

8359 But still at a gold point?—That is a gold point, but it is not what is commonly called the gold point. In India we generally mean, when we speak of the gold point, the gold point with reference to London.

8360 In the case of that portion of the Paper Currency Reserve held in London, that would not necessarily have been laid down at the gold import point, it might have been provided by the sale of bills at a lower rate?—Yes.

8361 Now I come to the local currency consisting of rupees. We have had evidence that additions have been made to the silver currency by sales of bills at rates below the inward specie point of exchange, do you approve of that procedure?—At rates below the specie point? For the purpose of clearness may I speak of the specie point with reference to London?

8362 You may take it so?—Then my answer is, Yes.

8363 Does it not mean that India is called upon to absorb more metallic currency before an addition to the currency is due?—I do not think that follows. The position appears to me to be that if those bills had not been sold, gold would have come in from Australia below what we call our specie point with reference to London, and would have been presented at the Treasuries in demand for rupees and would have run in the Government balances in India.

8364 In the case of the sales of bills below the lowest gold specie point, that would be adding to the currency before an addition to the currency was due, would it not?—I do not know that that necessarily follows. Do you mean if the Secretary of State sells bills below 1s 3½d?

8365 If he sells bills below the cheapest inward specie point. Supposing Australia can import specie into India at 1s 4½d, then if you sell bills on London below that point, does that not encourage an addition to the currency before it is due?—I do not think that it need necessarily do so. Certain remittances would have to be made by trade to India, and if it is not possible to make those remittances in the form of Council Bills, they will come out in some other form, and those remittances will require currency to enable the transactions to which they relate to be completed.

8366 Under the regulations now existing, is it not the case that the currency can be automatically increased only by the importation of sovereigns?—Automatically?

8367 That is, the only way by which you can have an automatic addition to the currency of India is by the importation of sovereigns, is that not so?—I find it rather difficult to answer that question, because again I have a difficulty of definition. I do not want to ask

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you a question, but if you do not mind, may I ask this? Would you call it an automatic increase if a bank buys Councils from the Secretary of State and obtains rupees, and it is necessary, in order to supply the trade demand for rupees occurring in that way, to make purchases of fresh silver?

(Mr Keynes) Would you accept, instead of the word "automatic," "legally enforceable"?

8368 (Sir James Begbie) No, I want to get "automatic" in—If the purchase of bills necessitates the purchase of silver by Government—

8369 That would be an addition, would it not?—Would it be an automatic addition?

8370 It would not be automatic unless it were made at the gold specie point. The only way under the present regulations by which the currency of India can be added to, as I understand, is by someone importing sovereigns, I do not know of any other way in which the currency can be increased—I should have held that it could be increased—

8371 Automatically, I mean?—I can state another method by which it can be increased. I do not know whether I should call it automatic, or whether I should not call it automatic. It is to me rather a nice matter of definition.

8372 Let us turn to another aspect of the same question. Are you familiar with the circumstances under which the decision was come to last year to undertake fresh coinage of silver?—Yes, I am more or less familiar.

8373 The position then was, was it not, that there had been very large imports of sovereigns, and there were very large quantities of sovereigns held in reserve, but the silver reserve had fallen to a low point?—It had fallen to a very low point by the middle or end of April, I think.

8374 And the Government considered it necessary to re-enforce the silver reserve?—Yes.

8375 What was wanted at that time was a substitution of silver currency for the gold in the Reserve?—For a portion of it.

8376 I would ask you whether you are aware that the procedure followed was to sell Council Bills, and to lay down money to buy the silver?—I think that was the case, but I rather fancy that the money was originally taken from Treasury balances, and remittances adjusting the transaction were made. It was after I left India on leave, and I am not certain about that.

8377 Supposing that the money was laid down in London by the sale of Council Bills, would not the effect be an addition to the total currency in India?—The effect must necessarily be an addition to the total currency in India in that case.

8378 India had, in consequence, to carry more metallic currency than was really necessary at the time, that is, she was obliged to absorb more than was necessary at the time?—In case she had used the gold, that would have been equivalent to an addition to the metallic currency, if the gold had been taken from the Government reserves against the sales of Council Bills.

8379 I am taking it that the gold was not used to buy silver, but the silver was bought by the proceeds of Council Bills, and therefore the new currency was an addition to the currency of India. Do you follow what?—I do follow it, but I do not quite understand your conclusion. It appears to me that if the public, which I understand is your point, had been equally willing to take gold as to take silver in satisfaction of the Council Bills that were sold, the gold would have passed into circulation, and that would have been an addition to the currency. I do not understand why there should be an addition to the currency if rupees are passed into circulation, when there would be no addition to the currency if sovereigns are passed into circulation, against the sale of Council Bills. That is the point I am not quite clear about. Perhaps I have not quite understood your question.

8380 The question was simply this. If the Government had used gold from their reserves last year to buy silver for the purchase of coinage, would that have been an addition to the total currency of India?—When the silver passed into circulation?

8381 Apart from circulation, my question relates to the total currency of India, which includes both the currency in the reserves and the circulation. If you part with gold and buy silver, it means, does it not, that the total amount of the currency remains the same, except that you have got more silver and a little less gold? The point I wanted to get at was this. If Government is to control foreign exchanges, it is a very important point at what stage they should intervene with the foreign exchange, would you agree to that?—Yes.

8382 (Mr Gillan) I will first refer to the matter of the change of the budget date, about which the Chairman questioned you. I think your attitude there was that considerable advantages possibly could be gained, but the fact was that the question would have to be very carefully considered?—Yes.

8383 As far as you can see, do you anticipate any practical difficulties?—So far as I can see, I cannot think of any, except, of course, the additional labour of preparing an extra intermediate budget.

8384 The difficulty of the transition period, in fact?—Yes.

8385 In any case, would you agree that even if there are some difficulties to be overcome, the advantages of getting a date which would give more certainty to the estimates of the Government of India would be so large as to make it worth while to overtake those difficulties if any method of dealing with them were found possible?—Yes.

8386 I ask you that as an officer who has been practically concerned in dealing with the budget, and knows what difficulties we have at the present date which is fixed for the budget period?—Yes, there are difficulties now. I think that the exact date adopted would require very careful consideration, whether, say, the 1st October or the 1st September, or the 1st November. I think that point would have to be considered before coming to any decision. Generally speaking, it certainly seems to give us a better opportunity of more accurate budgeting than the present date does.

8387 In paragraph 25 of your memorandum on page 584, you say, "The sovereign is in fact, in my opinion, a suitable coin for India generally." I want to ask you for what particular purposes is it suitable? I suppose you would agree that the great number of payments that Indians have to make are of very small amounts with the great bulk of the population?—Yes.

8388 Have you any knowledge of the amounts that they have to pay, even in what one would consider a larger payment, that is to say, in the matter of rent?—Do you mean the total rent payable in India during a year?

8389 No, the ordinary rent payable by an individual. Would it amount ordinarily to 15 rupees for six months in the case of the small cultivator?—I think not, but it is so long since I have been in a district now that I would not like to make any definite statement.

8390 It has been suggested that except in certain parts of India, where the people are better off and have larger rents to pay, as in the Punjab, for instance, it is possible that the sovereign is not so useful for payments as it is for hoarding. Would that be your impression? If a man has both gold and silver in his possession and most of his payments are in small amounts, much less than a sovereign, and he has to consider which he is going to put in his savings and which he is going to use for his ordinary day-to-day payments, it has been suggested that he would use the silver and keep the gold?—I can best illustrate the kind of case in which a sovereign might be used by referring to the class of transactions that occur in the districts that I know, that is, in the jute districts. The payments made not only to the intermediate but to the cultivators, are, I should think, very large. The boat bringing jute down to the head quarters of the district can have 600 or 700 rupees worth of jute on board. That may be shared by two or three men, but still the payments to each of these men must be large. Though he may be financed by the mahajan, the ordinary cultivator at the end of the jute season is frequently able to incur a considerable



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amount of expenditure, for instance, in buying corrugated iron roofing. Nearly all the houses in eastern Bengal are roofed with corrugated iron now since jute has done so much for them. I suppose a sovereign would come into transactions of that kind.

8391 These jute tenants are able to pay more than 15 rupees in rent; I am not sure that you are not considering rather a larger kind of man than I am thinking of?—The people in the districts with which I am acquainted with are probably among the better off cultivators.

8392 (Chairman) In a case of that kind has gold any advantage over notes?—No, I do not think it has.

8393 Would the notes, be acceptable to the cultivators who send in the jute?—It is a very curious fact that the cultivators in Eastern Bengal prefer silver rupees to anything else, and they do not care about gold or notes. The value of the jute crop, I think, was estimated a few years ago at something like 40 crores, which is 26 or 27 millions sterling. There is always an enormous outgoing of rupees at the time when the crop comes on the market, and it takes a very long time for those rupees to come back again. What happens to them I do not think anybody has ever yet found out.

8394 (Mr Gallan) The point I was going to put was that in those parts of India where you have payments on a very small scale, it is conceivable that a 10 rupee gold coin would be more useful than a sovereign, that is, if the ordinary payments are very small?—Certainly.

8395 In the same paragraph to which I have referred, paragraph 25, page 585, you suggest that "it is possible that a 10-rupee piece might compete with the "10-rupee note to a greater extent than the sovereign does." That result would follow only, would it not, if the 10 rupee coin were found to be more convenient than a 10 rupee coin?—I meant the 10 rupee pieces might be suitable for smaller transactions than the sovereign would.

8396 Unless a convenience were found in fact in the 10-rupee coin which the sovereign does not serve, it would not compete to any large extent with the note?—That is so.

8397 That leads up to the question of the gold mint. I do not know if you would say that the mint, if started, is likely to be scrapped within a few years?—I should not think there was any prospect of that at all. When using the word "experimental" I did not mean to say that it was to be put up and scrapped in a few years. I meant that the mint should be opened with the object of meeting any demand that might occur.

8398 At any rate, if it was said that a gold mint, if opened, will certainly be scrapped in a few years, you would perhaps agree that that involves a certain amount of assumption?—Yes.

8399 At the end of that paragraph to which I have just referred, you, in dealing with the gold mint, point out that gold "is now the standard metal of the "Indian currency" and that "gold bullion in India "can only be converted into legal tender currency in "India by being sent to England (or Australia) and "there coined into sovereigns" (page 585)?—That is so.

8400 You refer to that as an anomaly?—Yes, I do.

8401 That anomaly is, to a certain extent, is it not, a support to the sentiment to which you have referred in favour of a gold mint?—Yes.

8402 With regard to the Paper Currency Reserve, there is only one question I wish to ask you, and that is about paragraph 43 on page 590. You are there dealing with the form of the investment in the case of the paper currency, and you say that "when investments were "made in sterling securities the gold position of the "Government was very much weaker than it is now, "and it was desired to strengthen it. Circumstances "have now changed," and that side of the Government of India's defences "should be secure." Is that not rather regarding the Paper Currency Reserve from the point of view of the support of exchange purely?—Yes, it does seem to be.

8403. Would it not be better to say that the first, is in fact, we may almost say the only, point to be

considered in dealing with the Paper Currency Reserve is the question of convertibility, the securing of absolute security for the encashment of notes? Would you agree with that?—Yes, I should agree with that.

8404 From that point of view, it possibly will be better to mix your securities a little, and not to keep them all in one basket?—I think that is what I intended to say.

8405 That was not clear to me?—I intended to imply that as well, though I think that at the time the other aspect of the case, the exchange aspect of the case, did enter into consideration as far as I remember. My idea in making the suggestion was that we should not put all our eggs into one basket.

8406 Now I want to put a few questions about railway finance. The suggestion has been made that we should have in advance a railway programme for a certain number of years. The first point I would like to make clear in connection with your knowledge, is that this is a question which, as a matter of fact, has been very carefully considered from time to time by the Government of India and the Secretary of State?—It has been very carefully considered, and the Mackay Committee,\* I think, went over the question again. I think it has always been found to be impracticable.

8407 There was, as a matter of fact, at one time a three years' programme in force, was there not?—That was always subject to the qualification, I think, that in the event of any calamity such as famine or war, it might be necessary in the later years of the programme to reconsider the provisional allotments.

8408. I will come to that. There was a three years' programme which you describe as being more or less a nominal one?—Yes, or provisional.

8409 It was dropped, or rather, it was discontinued, because it was found to be of no great practical importance?—It was discontinued, I think, under the Secretary of State's instructions so far as I recollect.

8410 There are difficulties, are there not, when dealing with a programme so much in advance, that is to say, the Government of India, have found it difficult enough to anticipate what they are going to get in the Budget year immediately following?—That is so.

8411 This would involve their anticipating the general financial position for the next three or perhaps five years?—Yes. I think in reply to Sir Ernest Cable I expressed my opinion that it was not practicable.

8412 So that if Government undertook this responsibility of a three years or five years' programme, they would have to harden their hearts and say that they would find a certain sum of money whether there was famine or war or an unfavourable aspect of the London money market, or whatever happened?—That is so.

8413 Without some undertaking of that kind, the programme would be found ineffective?—I think that is the case; in fact, I meant to express that view when I said that in order to have any guarantee of maintaining the programme you would have to maintain some railway fund.

8414 About this question of the lapses, in the same way I should like first to make it clear, if you happen to know about it, that that again is a question which has been very carefully considered?—I think it has been considered several times, and views have been expressed on both sides very strongly.

8415 Do you happen to know, for instance, whether it was considered by the Mackay Committee?—I think it was.

8416 You do not remember what they said about it?—I do not remember the exact statement they made about it.

8417. I think you express yourself as being in favour of some re-allotment of the lapses?—Yes. I would like the question to be re-opened, at any rate.

8418. Suppose you have given the railways this year 12 millions and next Autumn when you come to a revision of your budget arrangements, the railways tell you that they will not be able to spend 12 millions, but they will spend 11 millions, you do not mean, do

\* Cf 4111, page 10, paragraph 7

† " " pp. 27-8, paragraph 34

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[Continued

you, that that million of a lapse should necessarily and automatically be re allotted to the railways for 1914-5? —I am not under the impression that the railways would be getting more money, which I believe a lot of people understand will be the case, or that this is implied by the re allotment of lapses. If it is found at the end of 1911-12 say, that a million is going to lapse, and that it is going to be re allotted, the railways will get a million less from some other source, but they will know that they have got that million and that that money is earmarked for the particular expenditure or liability for which it was originally granted. The great difficulty with many of the railway companies, I believe, is that at the end of the year—I am speaking of individual companies now and not of the railways as a whole—they have got large stores ordered, and they have got the money to pay for them, but they find that their stores are not delivered, and so then grant lapses. They have also got their programme made up for the next year and an allotment for that, and on the top of this they have got to pay then half million for the railway wagons ordered in the previous year, and so they have got to disturb all their provisional allotment which they have made for the forthcoming year.

8419 What appears to me is that if the lapse of the one million is foreseen, the Government of India cannot keep it in a separate pocket but it must go into their balances, and they must reconsider the division of the whole of their funds among the whole of their railways?—The position, as I take it, is that these lapses are not always foreseen. The railway lapses as estimated have, I believe, on more than one occasion been very much less than they have proved to be when the final estimates were made up.

8420 That is precisely the point I was trying to put. Will you distinguish between a foreseen lapse and an unforeseen lapse?—A foreseen lapse is taken into account.

8421 And must be necessarily?—And must necessarily be taken into account.

8422 When you say that you are in favour of the re allotment of lapses do you mean the foreseen lapses?—If it is put in that way I should, but I should much prefer, if it were possible, to make the railway programme more self contained. If I can make myself clear in the matter, I mean that Government should, in making their revision in March with regard to the foreseen lapses, say "We will not get this lapse, this is allocated to the railway company against their programme of the past year, so we have not got this money to play with for the year on which we are about to enter."

8423 (Chawman) You would, in fact, carry it into a suspense account?—Yes. The position would be the same as the one Mr Gillan is putting to me, but I should be inclined to think that if any arrangement of the kind was practicable, it should be put in a somewhat different way.

8424 Suppose that to a particular railway there had been allotted a certain sum of money in the year 1911-12, and that included half a million for rolling stock, but owing to a strike in this country or to other reasons, the contractor failed to deliver, what happens to that half million? Suppose that it had been planned further to give the company in 1912-13 one million, does the company then get a million and a half, or does it still only get one million?—The company has to make the best terms possible with the Railway Board to increase their grant if they can, I imagine, but very often they may have to cut down some of their other expenditure in order to provide for that half million.

8425 So it might happen that, having got a plan of railway construction for the coming year, the railway company has had at the last moment to halve that plan because a contractor has failed to deliver supplies, and so they could not be paid for within the previous year?—That is what I have understood from the railway?—That is what I have understood from the railway?—That is where the pinch really comes—it is in the lapse of the individual company.

8426 (Lord Faber) Would there be any difficulty, in your view, in a Railway Board, so to speak, being appointed for India, and that Board laying down a policy of borrowing five years ahead some millions every year in London, it does not matter how many millions, but we will say 5 millions, those 5 millions are paid over to the Board every year, and the Board then have to consider how that money should be allotted to the railways, then if a railway one year is not able to spend the exact amount allotted to it, it gets it the next year, or it might almost go in the other direction, although that is more difficult, and if they spend rather more in one year than is allocated to them, it would come off the next year. Would there be any difficulty in that if you get clear away from the Indian Budget, so to speak and have a separate compartment altogether?—That question generally was one of those that did come up before the Mackay Committee.\* They said,† We will borrow in London, I forget whether it was 7 millions or 8 millions, or what they said, but actually the first year it was 2 millions, then it was one and a third, I think, and the next year it was about a quarter of a million, and so the scheme broke down by its own weight—wholly on that account.

8427 Why did they change their policy?—I think India 3½ per cents, which are now at 86, were at 97 then.

8428 When you are getting good returns as you are getting on the Indian railways now—it is some thing over 5 per cent on the whole of the railways—is it the right policy, in your opinion, to disregard at the moment the price at which you issue the stock, looking to the ultimate needs of the whole railway system of India? Surely you would not postpone, would you, because you would have to repay a little more for the money than you are in the habit of paying?—I am not familiar enough with the London market to know what would be the best course in those circumstances. It might be possible, one would think, to borrow money repayable in instalments over 20 years or something of that sort, and in that way to get better terms. Apparently, conditions have been fairly stringent in the last year or so. I should personally have liked to be able to ensure some continuous system of borrowing, but apparently that has not been found practicable. As to keeping the railway finance in a separate compartment, I do not know that I find it possible to express any view about that. You have to consider what you would do in a bad year. It is only four years ago, I think, that the railways were not making both ends meet.

8429 Loose balances in the Indian budget are not desirable. It is better to take a railway balance out of the Indian budget and earmark it for the railways, is it not?—I am not quite certain that the Mackay Committee did not consider that point of the constitution of a separate railway fund,\* but I think I am correct in stating that they were rather doubtful whether it would be practicable. It would be possible to employ at once for capital expenditure all the money which at that time they could look forward to being able to raise, I think that was rather the conclusion that they come to.

8430 (Sir Robert Chalmers) May I ask you a question as regards the way in which on this hypothesis you could borrow. Would you borrow with reference to the amounts that you have found would actually come in course for payment and require an issue? Let me make it a little plainer to you, assuming that the idea is that 5 millions will be spent—that is the basis on which you start—then it is found as the time comes for borrowing, that as a matter of fact at that time only 4 millions would be actually needed as the first instalment, would you not restrict your borrowing to the 4 millions that were actually required as a matter of ways and means?—I cannot help returning rather an evasive answer to that question. I think that the position is one in which one would require a very intimate knowledge of the market.

\* Cd 4111, paragraph 29, page 21

† " " " 20, " 16

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Mr H. F. HOWARD, C I E

[Continued

8431 Is it not a very simple proposition that you borrow in order to issue, and you borrow only that amount which you need to issue at the time?—In our case it has been found so difficult to borrow all the

money that we want, that the Mackay Committee recommended that we should borrow in advance with reference to the position of the market at the time as well as with reference to our immediate requirements

The witness withdrew

At the India Office, Whitehall, S.W.

TWENTIETH DAY.

Wednesday, 6th August 1913.

PRESENT

THE RIGHT HON AUSTEN CHAMBERLAIN, M P (*Chairman*)

LOID FABER  
 Sir ROBERT CHALMERS, K C B  
 Sir ERNEST CABLE  
 Sir SHAPURJI BUBJORJI BROACHA  
 Sir JAMES BEECHIE

Mr ROBERT WOODBURN GILLAN, C S I  
 Mr HENRY NEVILLE GLADSTONE  
 Mr JOHN MAYNARD KEYNES  
 Mr BASIL P. BLACKETT (*Secretary*)

Mr THOMAS SMITH called and examined

8432 (*Chairman*) Will you kindly tell the Commission what your Indian experience has been?—I have set it out in an outline of my evidence which has probably been handed to the Commission

8433 Yes I propose to print the memorandum which you have submitted (*see* Appendix, No XXVII, page 612), so that we need not repeat the whole of it in your evidence, but I would just like to have on record with you evidence the brief account you have given of your Indian experience You have had 18 years' experience?—Yes, 18 years' experience in India, for 17 years of which I have been agent of the Allahabad Bank

8434 Mainly at Cawnpore and Calcutta?—Mainly at Cawnpore and Calcutta, yes

8435 How much of your time has been spent in Cawnpore?—Between 12 and 13 years, and 4 years in Calcutta

8436 You were formerly vice president of the Upper India Chamber of Commerce?—Yes

8437 Do you represent their views here to-day?—As a matter of fact, I asked for their views, and I was rather delayed in the preparation of this outline of evidence until I heard from them two mails ago They said they felt that it would be useless for them to send home instructions, and they preferred to leave it to a sub committee composed of Sir Alexander McRobert and myself, and Sir Alexander and I did meet and discuss the matter, and in so far as our evidence goes forward I suppose it may be taken as the evidence of the Upper India Chamber

8438 The memorandum which you have handed to us is the result of that conference?—It is the result of a conference between Sir Alexander and myself Of course, the Upper India Chamber may not agree *in toto*, but, in so far as they have left the matter to us, I think they must take the responsibility of what we say

8439 From that memorandum I gather that you make no serious criticism of the management of the balances in recent years?—Except in the years which I have mentioned, 1910, 1911 and 1912, making allowances for the difficulties under which these balances accrued

8440 And even in those years does your criticism go further than this, that the India bills which were paid off in December 1912, might well have been paid off earlier?—I think that is the principal point I do not know that I am prepared to raise any other point in connection with it.

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8441 You think that the Government is a little over-cautious?—Apparently so in underestimating

8442 I take it that that is the extent of your criticism?—Yes, that is the extent of it, and the underestimating is probably justified because of the extraordinary conditions which prevail in India

8443 I turn to the question of banking facilities You are, I understand, definitely opposed to the establishment of a Central Bank?—At present I seek here to raise some of the obstacles to a Central Bank

8444 May I take it that your opinion in the first instance is that there is no need for such an institution?—I do not think there is

8445 I understand from your memorandum that in so far as work which we might call general banking work is done by Government you think it is very well done?—Very well done

8446 And would not be better done by a Central Bank?—I do not think so

8447 On the other hand, I understand you to feel, and to feel strongly, that one central institution could not have sufficient detailed knowledge of the circumstances in different parts of India?—I think not

8448 Take the Presidency Banks they themselves cover a very large area, do they not?—Yes, they do

8449 The Bank of Bengal, for instance?—Yes, the Punjab, the United Provinces and Bengal

8450 Does Burma come within its sphere?—Yes

8451 Within their sphere, therefore, are there not circumstances as diverse and as widely distinguished as between Bengal itself and any other part of India?—Not to the same extent that you would find throughout the whole of India

8452 You think, therefore, that though it may be possible for one board efficiently to direct the Bank of Bengal, with that sphere of influence, it would be impossible for one board to direct a Central Bank for the whole of India?—I do not say it would be impossible, but I do not think the results would be so good

8453 You do not think the results would be as good as having the three separate institutions?—I think not.

8454 You state in your memorandum that "it is a hopeful sign to see money in the country flowing freely to the banks for investment" (paragraph 11, page 613) Does that refer to the growth in the deposits of which you speak?—Yes

8455 Do you think that the banks in recent years have tapped new sources of supply for their deposits?—I think more people are getting in touch with banking

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Mr THOMAS SMITH

[Continued

8456 Are new classes being induced to confide their savings to the banks?—You see a good many banks now are opening out what you might call sub agencies at small and unimportant places, and there is money coming in there

8457 Where those sub agencies are opened can you say from your own knowledge whether the business which they do is mostly to receive deposits or to lend money out?—There may be some branches which are receiving deposits, and others may be purely lending

8458 I think one banking witness who came before us said that in his experience, when you opened a branch the business that came was always a demand for loans, and not an offer of deposits?—That is very often why a bank opens a branch—to get its money invested and to get it put out

8459 You cannot say very definitely whether the banks are reaching new classes of depositors now?—I think that there are people who did not deposit before but who are coming now and making small deposits

8460 In this connection, you call our attention in your memorandum to the danger to banking in India of the growth of what I think you describe as mushroom banks, which have nothing of the bank about them except the name?—That is all

8461 You feel, I suppose, that it would be a great shock to all banks in India if those institutions under the name of banks came to grief?—Undoubtedly

8462 It would tend to put back the growing trust of the people in banks?—Yes, especially people who are not very well versed in these things. It would be sufficient for them to say that the bank had *bigar gaya* (failed)

8463 I think the attention of the Indian Government has been called to the matter?—Yes

8464 And you say that legislation is assured?—It is practically promised

8465 May I ask you whether you think that your view as to the absence of any necessity for a central bank is generally shared among commercial classes in India?—So far as we are concerned in the United Provinces, we are very well content with the present facilities, and I should doubt very much if Bengal would care for a central bank. At present their rate is often, generally speaking, one per cent less than the Bank of Bombay, which again is very often one per cent less than Madras, so that it would mean that the benefits which Bengal has now would have to be spread over the whole of India

8466 As far as you are aware, there is no general demand for the creation of such an institution?—I think not

8467 And you think there is no general dissatisfaction with the present banking facilities?—No, I think certainly not

8468 I think you observe in your memorandum that, though there is some stringency at the busy period of the year, you do not think that there is any good ground for complaint as to the rate at which money can be borrowed in India?—No, on the whole I think not, if you take the whole year round

8469 On the other hand, in dealing with the busy season do you favour the idea that Government should give some assistance to the money market at that time?—I set that out in my note (see page 614, paragraph 17)

8470 I would like to ask you in the first instance. Supposing it were agreed that Government might lend, to whom do you think they should make their loans?—To banks, I should confine it to banks

8471 Would you confine it to the Presidency Banks or would you go beyond them?—I would go beyond Presidency Banks. There are banks, such as my own, which are in a position to give very good security if required

8472 I understand that you would not propose to lend to any bank except on security?—No, except on security

8473. Would you lend on commercial paper at all?—No, I think it would be better to confine it to

Government securities and Corporation and Port Trust Bonds

8474 Would you go outside banks? Would you make loans to houses of high standing, or would you think it wiser for the Government to confine itself to banks?—The Government apparently are very much opposed to the idea. Suppose they made a start with banks they might find that it would go further, but I suggest in the first instance it should be given to banks

8475 Of course, the Presidency Banks occupy a position by themselves?—Yes

8476 The moment you go outside the Presidency Banks, might it not be very difficult for the Government to distinguish between those banks to whom it would be proper for them to lend and those to whom it would be undesirable that they should lend?—If they have got security and a good margin I do not see that the Government would stand very much risk. Their advances to the Presidency Banks and the Exchange Banks and the better class Joint Stock Banks would be perfectly safe. There might be an element of risk in the smaller Joint Stock Banks, but if they are adequately covered with a good margin—

8477 Of course, it is very important that the Government should have security for its loans, but it might be very inconvenient for them if they had to have recourse to their security?—It would, but with the banks which I have in mind, those which I have mentioned now, the Presidency, the Exchange, and better class Joint Stock Banks, I do not think they would go beyond their depth

8478 Where would you invite the Government to draw the line between those which you call the better Joint Stock Banks and those which are not of the better class?—I do not see any risk of the borrowers defaulting at all if the Government have a good margin of security, because the smaller Joint Stock Banks could certainly not want very large sums, but the Presidency and Exchange and Joint Stock Banks with offices in Calcutta would, I should think, be perfectly safe

8479 Suppose the Government of India decided, or the Commission recommended, if you like, that such assistance should be given by Government, but that in their opinion it would be well in the first instance not to go beyond the Presidency Banks, what would you say?—Then I think you would have the other Joint Stock Banks up in arms

8480 That is what I wanted to put to you as a banker. If the Government were recommended to go no further than the Presidency Banks, do you think that would be considered so invidious a distinction that it would be better for the Government not to touch the position at all?—No, I should certainly say let the Government touch it, because even if only the Presidency Banks get it it reacts upon the other banks that is to say, we would feel the benefit, the more the Presidency Banks have got to play with the easier would be the rate, so that certainly something would be gained by giving it even to Presidency Banks

8481 So that though you would strongly urge that the better class Joint Stock Banks should be included in the list of approved borrowers, you would prefer that money should be lent in the busy season to Presidency Banks alone rather than that it should not be lent at all?—Undoubtedly

8482 Let me ask you now what amount of money would the Government need to lend in order to affect the bank rate in the busy season?—It is very difficult indeed to hazard a figure

8483 The object of your proposal that they should lend is to keep down the bank rate?—Exactly, and the knowledge that it is there, and is available, would have that tendency

8484 But could you not give me any idea of what sum you think would probably be sufficient, in the early years at any rate?—I would not care to commit myself to that, because even in smaller estimates, for instance, when Government ask us in Cawnpore how much coin we should require, it is almost impossible to keep to that. You can never tell what India is going to do, and we may be absolutely wide of the mark

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MR THOMAS SMITH

[Continued]

8485 Do you think it might be a considerable amount?—Yes, I think it would be a considerable amount

8486 Five crores or ten crores?—Ten crores would probably be nearer

8487 You anticipate in that way that the rate, instead of going to 8 per cent, would be kept at 6 per cent?—I think it would

8488 Supposing that were done, and the bank rate did not go above 6 per cent, how far would the effect of that percolate down?—So far as regards borrowers who are borrowing on the basis of bank rate, either a fraction above or, as I believe some of the Presidency Banks do, a fraction below, they would score tremendously

8489 They would be the big men?—They would be the big men, but as the other Joint Stock Banks also regulate their seasonal advances on the basis of the bank rate, it would also assist trade generally

8490 Would it get to the cultivator? I do not mean to say would he have his money at 6 per cent, but would he have a corresponding reduction in the rate which he pays?—I doubt it very much

8491 You do not think there is much connection between the rate he pays and the bank rate?—No, for the simple reason that he does not understand the sliding scale. The small man borrows on a fixed rate, and he is probably paying his 8 per cent or 9 per cent, and he would not understand a sliding scale, a fluctuating rate

8492 He might be borrowing at more than that, I suppose?—He might be, but from banks he is probably borrowing at 9 per cent, some banks may probably be charging 12 per cent, but that is at small places

8493 I understand one of the reasons suggested, or the main reason suggested, by those who desired the Government to give assistance in the busy season was that under present conditions, the rate being so high, the cultivators and the smaller people were obliged to sell their produce at once, regardless of the position of the market, and it was suggested that if they could borrow rather more cheaply against their produce they might hold it and get a better price?—To a great extent that is true, because if you are going to take bank rates of 8 or 9 per cent, then people who are borrowing at fixed rates, that is, the small borrowers, must expect, if the bank rate is still in the region of 9 per cent, to pay somewhere about that, and probably more, but if you can keep your bank rate down to 6 or 7 per cent, naturally rates will fall all round

8494 In recent years has the bank rate ever gone as high as 9 per cent?—I think not, speaking from memory I think 8 per cent is about the highest in the last two or three years

8495 Seven or 8 per cent are the normal figures?—They are the normal figures

8496 On balance, I understand, you do not think that very much advantage would reach the cultivator?—It all depends, of course. If there is competition in the place where the cultivator is borrowing, the advantage would reach him

8497 It will really be a question of supply and demand?—But he is in supreme ignorance of what is going on, and the only question would be that the bank would be very glad to lend it at 8 per cent where they formerly lent it at 9 per cent

8498 On the other hand, if he is in this unhappy state of ignorance he may be very well content to borrow at 9 per cent, even though the bank could afford to lend at 8 per cent?—Quite so

8499 I want to put to you one objection which has been suggested to us against the idea of the Government making loans of this kind. Supposing the Government had done it for four or five years out of surplus moneys that it had at its disposal—I may take it that you only suggest that they should do it when they have surplus money?—Yes, exactly

8500 Suppose that on those four or five years in which they had done it there followed a lean year in which they had no surplus money?—But I am not referring so much to the advances from the balances,

which are a very fluctuating item, I am thinking more of what they have in the Currency Reserve

8501 You think the loans should be made from the Currency Reserve?—I think so in the first place, because the balances are very fluctuating

8502 That brings me to the Currency Reserve. I think you say in your memorandum that you think the fiduciary issue might be increased (page 617, paragraph 32). Is it your view—I think it is—that instead of being a fixed sum it should be a proportion of the total?—Yes, that is my view

8503 What proportion do you suggest?—I suggest one third of the gross average circulation

8504 Will you tell me why you choose the figure of one-third?—It is a limit within which it seems perfectly reasonable and expedient that the Government could work

8505 You take it as a point well within the limit of safety?—Yes, I think so

8506 But do you infer that that point is a perfectly secure one from the course of the note issue in past years, or from experience of other countries, or in what way do you infer it?—It is based more on the Indian note issue

8507 Then your suggestion would be, as I understand, that the fiduciary proportion being increased a proportion of that increase should not be permanently invested but should be held available to be loaned out in the busy season?—That is so

8508 Returning to the banks for a moment, you do not advocate any change in the legal conditions under which they now work?—No

8509 You do not think it necessary that they should have access to the London Money Market?—No, I do not think there is any occasion for that now. As regards their present limitations, they can pretty well drive a carriage and pair through them now

8510 You say that some years ago they sought access to the London Money Market, but opinion generally was against them on that point?—Yes

8511 Do you think that public opinion remains the same to-day?—I think it would

8512 Following your memorandum I come to the section which deals with capital expenditure (page 615, paragraph 20). Would you think it an advantage to raise as much as possible of the capital required for Indian development in India?—As far as possible, yes

8513 Do you think that more could be raised than has been done?—I think so

8514 But I gather you think not much more?—Not much more. I have not exactly the figures beside me, but I fancy a very big loan would not go well in India if that loan were in addition to the ordinary annual loan of two to three crores which is made. I fancy if the Government asked for a very big loan of five to six million pounds it would not get all that

8515 What do you think they could safely do—take another one or two crores?—I suggest here four million, that is roughly six crores

8516 Four million pounds a year?—No, I say here "occasionally." I do not think the market could take it every year

8517 In that case it would be very little more than has been done of late, would it not?—No, you are borrowing about two million pounds annually

8518 Four million pounds occasionally would not come to much more than two million pounds annually, would it?—No, but that is in addition to the ordinary borrowing. If you are having the two million pounds annual loan, I think an occasional loan of four million pounds might be tried

8519 Can you, from your banking experience, tell me where these loans are held? I suppose they are taken mainly in the first instance by the banks?—Yes, the banks, business houses, and native states

8520 Are they beginning to be held by natives to any great extent?—Not as much as they might. Mr Gillan is probably aware of certain correspondence which we have had with the Government about difficulties in endorsement. The native mind cannot understand it all. They are very exact in Government offices where the funds are administered, the Bank of Bengal and elsewhere, as to the chain of endorsement,

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M<sub>1</sub> THOMAS SMITH

[Continued

and that very often raises objections on the part of illiterate people. They often have difficulty in trying to get these endorsements put right.

8521 Will you explain to us exactly what you mean by that phrase 'the chain of endorsement'?—There are cages on the back of the paper. The paper might originally have been taken by the Bank of Bengal, and it is paid over to a lady, Mussamat Debi, and Mussamat Debi proceeds to sign here, and they say that the signature is not right—she is illiterate, or something of the sort. Even if she can sign there is probably something wrong, they want it letter for letter, or the paper has not been presented to the Public Debt Office for several years, and it has got to be

8522 I understand that the certificate passes from hand to hand?—It passes from hand to hand by delivery.

8523 And does not require to come back to the issuing bank or the managing bank at each transfer?—No.

8524 If these difficulties could be diminished do you think that there would be a much larger market among natives for Indian securities?—I think it would help considerably. Sir James Meston, when Financial Secretary, did a good deal to remove these difficulties, but they are really very perplexing difficulties, even as regards joint stock companies and railways, because Government notes are given to railways as securities for tenders, they may be paid to the Central India Railway and then the Central India Railway may hand that paper on to someone, and finally when it comes to the Public Debt Office for renewal they say "So and so's signature is not in order, the agent of the rail way is not authorised." It is the same way with banks and joint stock companies, not so much in the case of banks, but the Chamber which I represent took up several cases I know where Government disputed the right of an attorney to sign.

8525 I think you say there has been correspondence between your Chamber or Bank and the Government of India on the subject?—Yes, these were brought to the notice of Sir James Meston and he gave orders to have the things considered.

8526 As regards the exchange, I understand you to hold quite definitely the view that the fixing of the rupee at 1s 4d has been of benefit to India generally?—I think there can be no doubt about it.

8527 In your opinion the most important task in relation to this matter of the Government of India is to maintain the exchange at that figure?—That is so.

8528 You have been unable to form anything like exact views as to what has happened to the large quantity of gold which has gone into India in recent years?—Beyond that a good deal has been melted down and it has gone into ornaments.

8529 I think you suggest in your memorandum that a good deal of it is melted down for trade purposes?—For jewellers' purposes, yes. Mr Gillan suggests that, and I think I can bear him out from my experience.

8530 You say that the circulation is increasing, but the increase is more marked in the Punjab than elsewhere?—Yes.

8531 The increased circulation of gold is very local in India, is it not?—It is distinctly localised, I should say.

8532 There are particular districts where gold is desired and others where it is not needed or not required by the public?—That is so.

8533 What do you think is the business of Government in relation to the currency?—To give the people what they want.

8534 But in so far as they can favour one kind of currency rather than another, which kind would you prefer to see in circulation?—Of course, token coin is the cheaper from the Government point of view in circulation, but there is one thing to be remembered, that as regards such as is taken off for saving it is certainly much better that the poor man should save in gold than in silver.

8535 If he melts it down?—If he melts it down.

8536 Does that apply if he keeps it as coined rupees?—It is all the same if he has still got it in sovereigns, or has got it in the form of ornaments, so long as he has the gold.

8537 But have sovereigns any advantage over rupees, except that they are less bulky if the rupees were kept in the form of rupees?—I do not quite follow.

8538 I quite understand that if the poor man melts down rupees, which are a token coin, and then in time of stress brings back the bullion he would get a less sum than he had put away?—Exactly.

8539 But if he keeps it in the form of rupees he will get back the same sum?—Yes, he will get back the same sum if he keeps his savings in rupees, exactly.

8540 When he melts it down for jewellery, of course he loses if he melts rupees and does not lose if he melts gold?—Quite so.

8541 Now I go back to my question. Suppose you were an autocrat administering the Government of India and you saw that you could encourage the circulation of gold at the expense of rupees or notes, or the circulation of notes in preference to gold, what course would you take?—If I wanted to make money for the Government I should try to give them as many rupees as possible. If I wanted rightly to administer in the interests of the people of India I should try to give them as much gold as possible.

8542 It is the second supposition that I wanted to go on. Why in the interests of India would you give them as much gold as possible?—Because the man who has the gold there—the man who has saved the gold—has got it whenever he likes.

8543 Is not that true if he has got it in notes?—If he has got it in notes, yes, but I do not think he would keep it in notes.

8544 As long as the Government is solvent?—Exactly.

8545 Is it not true if he has got in rupees?—It is true if he has it in rupees, certainly.

8546 Is it not a fact that in that respect gold is only better than silver if the gold and the silver are both melted?—Yes, if the gold and the silver are both melted.

8547 Have you any other reason for thinking that it is in the general interests of the people of India to encourage the circulation of gold?—It is a much easier coin from the point of view of the small man. He can keep one sovereign much more easily than 15 rupees. If you take it for purposes of remittance it is more easily transported.

8548 In both those respects notes would be as advantageous as, or more advantageous than, gold?—They would be if you could get the people to keep notes.

8549 When you come to think it out, would there be any objection from the point of view of the people of India to encouraging the use of notes rather than gold?—I do not see that it is really the duty of the Government to force them one way or the other. If they can have notes or rupees or gold, let them take what they want.

8550 I quite see that if a person has a clear idea of what he wants it would be desirable that the Government should give it to him, but when he is indifferent ought the Government also to be indifferent, or ought it then to tender him one rather than the other?—I do not quite follow that.

8551 If the payee is indifferent as to whether he receives notes or gold ought the Government to be indifferent too, and ought the Government cashier to wait until he has made up his mind which he will have, or should the Government cashier, he being indifferent, give him the one or the other?—Give him the one or the other.

8552 But which?—Offer him notes or offer him silver. If you offer him notes he can immediately say "I want rupees for them" or "I want gold for them". It is only a question of reconverting it.

8553 If, therefore, you were in that position and the man were indifferent, you would give notes rather than gold?—I would give him notes rather than gold.

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8554 Of the gold which is given out a certain part remains in circulation, or may come back into circulation, but a great deal disappears from the realm of currency altogether?—Yes

8555 You said just now that it was most important in your opinion that the fixity of exchange should be maintained. Do you think that gold which is put into circulation is of much use for maintaining exchange in a crisis?—I doubt it

8556 You do not think that it is probable that much of it would come out in a crisis to support exchange?—I should think not

8557 If that is so, is there not a real reason in the interests of the people of India, and not merely a money making reason, why the Government of India should discourage the circulation of gold, and increase the circulation of notes or rupees?—No, the Government can have their own reserves of gold, and centralise them reserves

8558 How do they get those reserves? Are not those reserves dependent on the amount of notes, and the amount of rupees which they put into circulation?—Yes, that is so

8559 If for notes or rupees you substitute gold in circulation, you automatically stop the accumulations of the reserve of gold?—The reserve of gold must suffer in consequence if you are forcing gold out but I am not as gung that

8560 I think you put it to me that the Government should remain neutral in this manner?—Yes

8561 I am suggesting to you that in the interests, not alone of the Government, but of the people of India, the maintenance of exchange being their first interest in your opinion, the Government should not be neutral, but that it should encourage the circulation of notes wherever it can, rather than the circulation of gold?—Yes

8562 You see, perhaps, the line of argument indicated in my questions?—Yes, I see it

8563 On the whole do you agree with me, or do you differ?—I should say that the balance lies in favour of developing the note circulation

8564 And keeping gold in reserve rather than putting it into circulation?—Exactly I am not urging that the Government should force gold, but that it should be optional, and if a man expresses a preference for gold the Government should endeavour to meet it

8565 In the light of those considerations, what is your reason for favouring the opening of a gold mint?—The reasons are very fully stated by the Government of India, and on the whole I think I agree with them

8566 Will you just give them to me?—The main thing was, of course, that there might be gold which is absorbed now, or is hidden now, but that might be converted. One never knows when that occasion might arise. It would be there for that purpose, and there are times when it might be more expedient to import bullion and have it coined in India

8567 What would those times be? What are the conditions which you contemplate as existing to make it more expedient for the Government of India to import bullion and coin it in their own Mint than to take sovereigns from London or Australia?—From Australia?

8568 From wherever they can get sovereigns cheapest?—I do not know that I could suggest the conditions at the moment, but they might arise

8569 Put the case of some crisis forcing gold—bullion—out of hoards or out of savings. I suppose what you have in your mind is a famine which brings pressure on the individual and forces him to bring out his savings to live upon?—Yes

8570 That would be a small man with a small amount of bullion, I suppose?—Yes

8571 The total might be large, but in each individual case it would be small?—Yes

8572 An individual could not go direct to the Mint to get his own little store coined, he would sell it as bullion?—Yes

8573 And it might pass perhaps through two or three hands before it reached the Mint?—Yes

8574 Do you think, under those circumstances, there would be any real advantage to anybody in being able to take that bullion to a Mint in Bombay, rather than in sending it home to be coined?—There probably would be a balance of advantage in getting it done there instead of sending it home to be coined

8575 Where would the sovereigns be wanted when they had been got? The individual who had brought out his little hoard would want rupees, would he not?—The sovereigns would remain with the Government

8576 When the bullion had been taken to the Mint and coined into sovereigns, what do you suppose the man who got the sovereigns would do with them, take them to the Government I think you said just now?—Yes

8577 They would get into the Government Treasuries?—Yes

8578 And from the Government Treasuries what would be the next step? Would they stop there until they were wanted for the support of exchange?—Yes, until they were wanted for the support of exchange

8579 And when they were wanted for the support of exchange where would they be wanted?—They would have to go to London

8580 Would it not be just as well if the bullion had gone there at once instead of passing through Bombay?—Yes

8581 Do you think there is any real advantage in the opening of a Mint to gold in Bombay?—I do not say that it is going to do everything, but there is an element in its favour

8582 Rather of sentiment, perhaps, than of very concrete advantage?—There is a good deal of sentiment in it, yes. I say that "on the whole" I favour it

8583 As regards the gold reserve, I think your view is that no limit should be put to its growth at present?—No

8584 You also hold that the amount of actual gold in it is insufficient at the present time?—Yes

8585 And the proportion is too low?—Yes

8586 You do not desire to fix any definite limit to the gold portion of it any more than to the whole, do you?—I suggest that the reserve should be held half in gold or rupees, the bulk to be held in London in gold only, while gold or rupees may be held in the Indian branch as circumstances warrant

8587 Excepting that the actual gold should be half of the whole you would not care to put any limit?—No

8588 I notice also that in connexion with the Paper Currency Reserve you say that in your opinion if the note issue were handed over to a Central Bank it would not command the same confidence as the present Government issue?—I do not think it would

8589 Does your experience of India lead you to think that the people attach great importance to the Government guarantee behind the notes?—Undoubtedly

8590 And no institution even of a semi-state character not absolutely under the control of the Government would, in your opinion, carry the same weight?—I do not think it would be as good as the direct connexion of the Government now

8591 In regard to the financial organisation and procedure of the India Office, you suggest that the practice of lending to certain approved banks has a tendency to single out and hall mark those banks, and you ask whether it would not be possible to widen the range of competition even if it led to rather less interest being received. Are you speaking there from personal knowledge of the institutions in London or are you rather influenced by your Indian experience?—Well, the same argument would apply in India. It is a case of 'a fair field and no favour'

8592 Do you think that the loans to certain banks in London have been of such consequence, having regard to the position of the banks, as to hall-mark them as you say?—No, I think the biggest deposit is under two millions, but I believe there are a good many banks in London who would like to get hold of those deposits, and some in the City feel very sore about it.

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8593. What exactly is your second suggestion as regards deposits and short loans?—If the money is available why should not the Secretary of State notify that he has so much to lend and receive tenders for it, just the same as he does when he is selling his bills, "I have so much to sell in India" That is all it is, because it seems to be a very costly arrangement at present

8594 You put it forward, not on the ground that the present system leads to the favouring of special firms, but rather that it would be much more economical if it were done in that way?—It would draw a bigger field of borrowers

8595 Are you aware that the emoluments of the Government broker have been revised since the days when such large sums were paid?—No I did not know that

8596 Of course, you are aware that the balances were very abnormal, and that led to abnormal fees?—Exactly

8597 (Lord Faber) I want to ask very few questions, and perhaps more on banking than anything else I gather from you that in your opinion if a bank fails in India the banking community generally is hurt by the want of confidence brought about by the failure?—I refer more to the effect it would have on depositors

8598 They would be timid?—They would

8599 They would not care to deposit with banks in the same way as they had done before the failure?—Quite so

8600 Therefore, you will most likely think that if we could prevent a failure it would be right to do so?—Yes

8601 What should you think of Government inspection of all banks?—I do not think any good bank has any reason to be afraid of that

8602 As regards the price of money, do you agree that in all comparatively new countries as regards banking and commerce higher rates are usually exacted?—Yes

8603 With regard to the endorsement of securities, do I understand that those endorsements refer to the endorsement of Government paper?—Yes

8604 Tell me exactly what Government paper is?—It is Government promissory notes The Government of India promises to pay So and so, and then there are cages on the back for endorsement

8605 Why is it so necessary to have the endorsement on the back? Is it so that they may have recourse against the holder in a case of failure? It cannot be that, because it is Government paper and, therefore, endorsement is no good as regards Government paper unless it is to point to a theft of the paper?—Yes, of course, it is payable to So and so or order, the paper is not bearer paper

8606 Just so, but when you have the first holder and he endorses it and does not endorse it on to the next holder, you only want the endorsement of the first holder of Government paper, do you not? We will say it is payable, if you please, to Mr Smith, who is the holder of Government paper to the extent of 1,000/ Mr Smith endorses it, and he then hands it to Mr Robinson. It is not necessary for Mr Robinson to endorse it unless it is endorsed over by Mr Smith to Mr Robinson?—Yes, but I think the practice is that it has got to be endorsed over

8607 Is it obligatory to endorse it over?—It is payable to "or order" in the first case

8608 I know?—I see The point is whether you can cut out the endorsement by Robinson

8609 Unless it is endorsed on, obviously, that is the English practice, as you know?—Yes

8610 Therefore, it seems to me that the endorsement need not cause any bother at all unless it is endorsed on to somebody else?—Of course, the only difficulty would be if the paper remained in my name

8611 And you have endorsed it, but not endorsed it on?—You mean I have not endorsed it on, I have simply signed my name and sold it to you, you would not endorse it

8612 No, I should not Why should I?—How are you going to get the interest unless I sign the interest warrant for you?

8613 I understand now, there are coupons upon it, are there?—No, there are little cages I was explaining that On the back of the paper one reads "interest for the half year ending" so and so, "interest for the half year ending" so and so, "interest for the half year ending" so and so, and the cages here are independent of these, these cages are for endorsement

8614 I understand now, which I did not before That is a kind of paper with which, of course, we are not familiar in this country I should say that there are coupons attached, the coupons are on the back, but it is the same thing, except that they must go with the original note in this case?—It is not a coupon

8615 You cannot cut off the coupon?—It is part of the paper, it is printed on it, but, of course, the Government now have been asking whether it would be possible to issue Government paper payable to bearer They have taken opinion in India now whether it would be possible to have it in the form of stock, the present notes, and paper payable to bearer

8616 It would be quite possible to do that, because there is plenty of it to be found in London—not on the Indian Government, but other loans?—I do not know that it has reached further than the stage of enquiry

8617 As regards the bank reserve, if you had to choose in what form your bank reserve should be, how should you take it, gold or rupees?—Are you referring to Indian banks?

8618 Yes, or any bank?—The cash reserves

8619 Yes?—I should keep them in any form

8620 You would as soon keep them in rupees as in gold?—No, I would sooner keep them in notes They are handier for us

8621 I suppose you would rather keep them in gold than in rupees?—Not necessarily We have to believe that the Government of India is all right

8622 Still I come back to the old question that the gold, from my point of view as a banker, is pleasanter to hold, because it is intrinsically worth more, as you have observed, than the rupee when melted down?—Quite so

8623 And gold is world's money?—Yes, exactly

8624 (Sir Ernest Cable) You speak in your memorandum only of the difficulties of a State Bank (see pp 613-5) Do any advantages occur to you?—I have read the memorandum prepared by Mr Abrahams, and I am afraid I do not see any advantages now unless there are other advantages which have not been disclosed there

8625 You were talking about the mushroom banks Can you tell me where those mushroom banks operate?—All over the country

8626 Do you not think that a State Bank might supply the place of, and tend to abolish, these mushroom banks?—No, I do not think so, for this reason, that if you had a big State Bank you would not get the deposits out in the same way There is money in the country to come to good banks, but what we want is the Government to see that those banks are kept in leading-strings for a good long time to come They will get money which the State Bank or the Presidency Banks would not get, because the Presidency Banks cannot afford to pay the rates, or they do not pay the rates, that the smaller Joint Stock Banks would pay

8627 You think the depositors throughout the country demand higher interest?—They want a bigger rate I am not aware what Sir James Begbie, or the Bank of Bombay, pays on deposits, but I believe it is about 3 per cent

8628 (Sir James Begbie) It is 3 per cent?—If you can get another Joint Stock Bank which is willing to pay 4½ per cent., and if that bank is properly regulated by Government, you will get money to come to that bank The bank has a certain duty to perform and at 3 per cent they are not just exactly inviting all the money in the country to come to them It is



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the same way at home here, so much money has had to go elsewhere

8629 (*Sir Ernest Cable*) In reply to the Chairman you mentioned that it would be an advantage for the use of currency notes to be increased?—Yes

8630 Do you not think that could be better brought about by a State Bank than by Government?—If there is one thing that the Government have done well, they have managed their currency well.

8631 Nobody denies that, but the question is whether a State Bank would not be able to push it more successfully?—No, I do not think so

8632 (*Mr Gladstone*) Let me ask one or two questions as to the nature of the security to be deposited with Government against Government loans You have referred to the trouble and risks in regard to Government paper passing by endorsement?—Yes

8633 Do you not think that an issue of short term bearer bonds, known in this country as floaters, will get rid of this difficulty and form a very convenient security?—As a matter of fact, that is the view I took when the Government asked opinion upon that matter

8634 The creation of such securities by Government from time to time in moderate amounts might be done without inconvenience?—I think it could

8635 And if the amount repayable at any one time was strictly limited there could not be much objection from the Government point of view?—I do not quite follow the question.

8636 If the amount repayable by the Government at any one time on short term bonds—because they would have to be short term bonds?—Yes

8637 It would form a good banker's security, and it might attract money not now invested in Government loans?—Yes

8638 It would be a safe security for Government to hold against any loans they might make, reducing to a minimum any risk that they have to carry, or any adverse effect on Government loans in general should it ever prove necessary to realise such security?—I think that is quite true

8639 (*Mr Keynes*) You said in reply to a question that the bank rate sometimes differs in different Presidencies?—Yes

8640 I suppose that is because money does not flow very readily from one part of India to another?—No, that is so

8641 Do you hold that that is an advantage?—That it should not flow?

8642 Yes?—It is probably a disadvantage

8643 I think you called attention to these different rates as showing that there was no need for a Central Bank I suggest to you it rather shows the opposite?—No, I mentioned that as showing that the conditions in each of these Presidencies are entirely different, that the rates, among other things, are different I think if you read my note you will see I say that each has a distinctiveness of its own, and the rate in each is often different" (see page 613, paragraph 8)

8644 And the rate is different because money cannot readily flow from one to another?—That probably is so, yes

8645 If there were a Central Bank which directed the flow of currency to the different Presidencies according to how much was wanted in each, there would be less difference between the bank rates than there is now?—Yes, but I do not know that the Central Bank could achieve that.

8646 If it attempted at all to do that it would be an advantage?—It would be a very good thing, but you have the other thing there; if the Government are going to lend money, as I suggest in this note here, out of their surplus, it would do the same thing

8647 How do you mean? I do not follow?—If the Government are going to lend money out of their currency reserves and tide over the seasonal difficulties you will have brought the rate down.

8648 But does that affect the difference between the rates in the different places?—It would, because you would probably have Madras as the highest, and it would probably be borrowing more. If there is a difference, if it is 4, 5, and 6 in one place, and if

it is tighter in Madras than it is in Bengal, then Madras will be wanting more from the Government, which would bring it down to 4

8649 That is assuming that Madras would have as much security of the right kind as would be wanted for the loan?—Yes

8650 You say that there are local differences to which the banks have adapted themselves What are the local differences of which you are speaking?—The differences in trade and so on—financing different industries

8651 Do you mean differences as to what trades and what individuals ought in different parts of the country to have credit?—I do not quite follow that question

8652 The industries in the United Provinces are different from the industries in Burma?—Yes, quite so

8653 So are the people?—Yes

8654 But that you say does not cause any difficulty to the Bank of Bengal?—No

8655 What are the sort of differences of which you are thinking which would cause the difficulty?—The differences in the nature of the business?

8656 Yes?—Bombay has entirely different business from Calcutta, for instance

8657 But so has the United Provinces from Burma?—Yes

8658 What is the difference which is relevant in the one case and not relevant in the other?—There are differences in trades, and so on, and different industries and exports

8659 But the difference of industries is no interference as between Burma and the United Provinces, but is an interference as between Calcutta and Burma?—Yes, it might be

8660 Why is that?—You are only enlarging the scale, are you not, you are only enlarging the area

8661 Are not these differences of a kind which would inevitably be left wholly to a local board, and could not conceivably be the business of a central board?—It might be arranged to leave them to the local board

8662 Are there any differences which could not be left to the local boards?—No, probably not It would all depend on what latitude was given to the local board

8663 With regard to the mushroom banks, from what classes are they drawing their deposits, do you think?—From the artasan, the babu, the pleader and the cultivator

8664 Is that a class which, apart from mushroom banks, does not bank at all?—I do not think they bank at all Of course, the pleader, as an educated man, did bank previously, but they get better rates here, and they get a position of importance on the board, and so on.

8665 So to a certain extent you think the mushroom banks by their high rates attract money which previously was going to other banks?—No, not necessarily Yes, to a certain extent to other banks, and they have probably tapped new sources altogether

8666 How are these banks using their money?—I refer to them in the appendix to my memorandum (page 619, paragraph 6) as investing in all sorts of things, such as coach-building They will take a part of their money and erect a soap factory, or a coach-building business for repairing carriages, and so on, and, of course, they finance a great deal in trade.

8667 Do they on the whole put their money into permanent investments, or do they keep it for what I may call real banking purposes?—I should think they rather tie it up In fact, they become traders with the money which is given to them as bankers

8668 What sort of rate do they commonly pay on deposits?—Five per cent., and for two years probably six per cent. It is five per cent. for one year and probably six per cent. for two years, and so on like that at varying rates

8669 I think in answer to *Sir Ernest Cable* you said that the right solution was not to introduce a Central Bank but to have these banks under Government inspection?—To let them go on, and not to have them

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under Government inspection but to legislate for them and to provide that they must do certain things they must comply with certain conditions before they are floated, and after they are floated they must have a certain percentage of cash to their deposits, and so on, and they must have a certain percentage of capital to their deposits

8670 If they were properly regulated could they afford, do you think, to pay these high rates of interest?—I see no reason why they should not. They are borrowing probably in districts which are not advanced, and if they borrow at 5 and lend at 9 per cent they are getting a profit margin of 4 per cent, and their expenses are very low, they have no European establishments

8671 If there were different branches of the central bank in these more remote places, would they not also be able to afford to pay more than the 3 per cent now paid by the branches of the Presidency Banks?—Then they would have to alter their present practice, because if the central bank is composed of the Presidency Banks a uniform rate obtains at all their branches, and they would only pay the same rate at all their branches

8672 Is that a good plan, do you think?—No, I expect it would be a very good thing to let other institutions than a big institution open banks

8673 Is it your opinion that a higher rate could well be paid in up country districts than what could be paid in Presidency towns?—Do you mean a higher rate paid by borrowers?

8674 A higher rate paid to depositors?—Yes, there is a higher rate paid up-country than there is in the Presidency towns

8675 And it might fairly be paid?—Yes

8676 So that if Presidency Banks are thinking mainly of their Presidency town trade in charging a uniform rate which is suitable to them, that tends rather to hinder their development up country?—If they borrowed at one rate at all their branches and lent at a uniform rate?

8677 No, that was not my question. If the Presidency Banks are thinking chiefly of their Presidency town customers and charge a rate suitable to them and then impose that rate on their branches also, you think that hinders the development of their branches?—I have not quite followed the question

8678 (Mr Gillen) What Mr Keynes means, I think, is that they offer no more for deposits up country than they offer in the Presidency towns?—Is that your point?

8679 (Mr Keynes) Yes?—No, they do not offer any more, because if they offered more in Cawnpore, for instance, than they offered in Calcutta, people in Calcutta would send up to Cawnpore to reap the higher rate

8680 But if the money could only be taken out at the branch at which it was deposited, would that be the case?—Quite. You could get currency notes and send them back again to Calcutta and you could get your money back there, or you could go to the Currency Offices and get a transfer for one-sixteenth

8681 Suppose that one of the more substantial of the joint stock banks were in difficulties, to whom would it look for assistance?—The Presidency Bank in the first place

8682 Is there any important reserve in cash outside the Presidency Banks?—Do you mean banking reserves?

8683 Yes, banking reserves?—Do you mean have the other banks got important reserves?

8684 Have they reserves in cash apart from their balances at the Presidency Banks?—You mean have these other banks balances in the Presidency Banks?

8685 No, have the other banks got reserves in cash apart from their balances at the Presidency Banks?—Yes

8686 Important reserves?—Yes, considerable

8687 I do not want anything precise, but when banks say that they have cash in hand and at the Presidency Bank amounting to so much, would you think they had as much cash in hand as they had at the Presidency Bank?—A great deal more. Take the case of my own bank. We bank our surplus money

with the Bank of Bengal, and that is a mere bagatelle compared with what we have in our own safes. We could not possibly leave all the money lying with them

8688 What is your published proposition?—It is, I think, shown only as "Cash in hand and at bankers"

8689 About how much is it—what proportion of the balance?—I could not tell you, I am not in the head office. Do you mean of the proportion of the bank's cash balance how much is kept at the Presidency Bank, and how much is in our safes?

8690 No, I did not mean to ask you that, I mean merely what proportion of the deposits, the cash in hand and the money at the Presidency Bank added together make?—I do not think I could tell you straight off just now

8691 Have you not any approximate figure?

8692 (Lord Faber) It is 20 to 25 per cent, is it not?—It varies in June and it varies in December. When the demand is greater the percentage is not so high. In June, of course, it is very large and the money is lying idle, but the figures have escaped my memory at the moment

8693 (Mr. Keynes) You suggested that perhaps a loan of ten crores would be wanted to keep the bank rate down?—I do not bind myself to that figure, you understand

8694 No, but if you take that figure, do you think the Indian banks could put up security with a good margin to that amount?—The whole of the Indian banks?

8695 Yes?—Probably

8696 Even if they were limited to Government Paper and a few other Port Trust securities, and so on?—Yes

8697 You think they could?—I have not the figures now, and it is rather difficult. I cannot remember just exactly how much the Presidency and other banks hold in these securities. It is difficult, it has been off my mind for some time now

8698 I do not quite understand the mechanism by which this money should be lent to banks. Are they to tender for it?—No, the probable course would be that they would write in and say to Government "Could the Government give them so much money?"

8699 You say in your memorandum "Any bank depositing sufficient Government securities to be accommodated, the loans not to exceed three months and to carry interest at a rate to be fixed by Government from time to time, but approximately five per cent" (page 614, paragraph 17)?—Yes

8700 Do you mean that the Government should notify that their rate at the moment is, say, 5 per cent and then lend to any extent which is asked of them at that rate?—No, I take it the procedure would be that the bank would probably want ten lakhs and would write to ask the Government if they could get the money and on what terms, and the Comptroller would say on what terms he was prepared to lend. If the money were going out quicker than the Comptroller cared for, of course, he would have to put up his rate, but it would move more or less in sympathy with the bank rate

8701 It would be within the discretion of some Government official to settle the rate as he saw the loans going in or coming out?—I think so. I think the Comptroller might fairly be trusted to do that

8702 Doing very much what a bank does?—Yes, practically

8703 You are proposing something which would be very far from rule of thumb and would involve some Government official's exercising a discretion of a kind usually exercised by banking officials?—Yes, but to what extent it would. If the Government said that they were going to lend at 5 per cent and found that the rate was going higher, I think the Comptroller would be quite justified in saying "we want 6 per cent now, you are getting a bigger profit margin and we want to share it." I do not see that there is any objection to the Comptroller doing that

8704 In the course of your memorandum you say that borrowers for all the year round would pay 6 per cent. We have had evidence that some borrowers

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pay a good deal less than 6 per cent I suppose they have been an exceptional class of borrowers?—Yes, very good borrowers I know from my own experience as a matter of fact firms who do borrow at less than 6 per cent from the Presidency Banks

8705 But you say the ordinary man in a fair way of business would probably have to pay 6 per cent for all the year round loans?—Yes, if he is a good borrower

8706 What sort of security would he give against that?—He might have shares, or it might be stocks

8707 Something of the kind which the Presidency Banks would not take?—Oh dear me, no Presidency Banks advance on anything if they can get two names They can drive a carriage and pass through their limitations They can lend on landed property so long as they get two names and the deposit of the titles as security

8708 We are told in evidence that the rule which prevents Presidency Banks from lending upon stocks and shares is an inconvenient one?—It is about the one thing that they do not do, but if I wanted to borrow on stocks and shares all I have to do is to overdraw my account, and I have the stocks and shares and I come to you and say "Will you sign this promissory note for the Bank and sign along with me?", and you get a small commission for doing it, and I get the money all right and they get the shares

8709 They do actually take stocks and shares as collateral?—Yes

8710 If they get the two names?—If they have the two names They may put the shares in safe custody, I do not know, but I know cases where they have the shares

8711 You think, therefore, that these restrictions under which they work are of no practical importance?—No, I think they can make such very wide use of them, but I do not suppose the Central State Bank would be allowed to do things of this sort They could not possibly

8712 Do you think the restrictions are of a wise kind and ought to be maintained?—The present restrictions?

8713 Yes?—As I say, they can make a pretty wide use of them, but they have come to no harm so far

8714 Would it be a good thing or a bad thing if they were strictly enforced? You are suggesting that in the case of the Central Bank they would have to be strictly enforced?—It seems to me, according to the strict letter of the law, the Presidency Banks could make these advances so long as they got the two names

8715 If it were to be strengthened up in some way so that they could not make loans on stocks and shares would that be a good thing?—I would not say so Why should they be debarred from it if they have two names?

8716 Is there any reason why the Central Bank should be debarred from it?—The Central Bank, if it is going to be a Government Bank, I fancy would have to be kept much more tightly in hand

8717 Why?—Because under the present conditions it is possible to borrow on houses and lands and everything else So long as you get two names you can go to the Presidency Banks and get the loan

8718 My point is this, that if the method followed by the Presidency Banks is perfectly safe there is no reason—?—It is perfectly safe so far

8719 Do you think there is any element of danger?—There is always danger in banking, you are never free from it It does not matter what you touch It might be right to day and bad next year

8720 Indian banking has had a very prosperous time for ten years or more In what position do you think they will find themselves to meet the next severe banking crisis?—It depends when the next severe banking crisis comes, and in what form

8721 If there were to be some serious failures and at the same time a good deal of stringency?—Yes, a good many would come down

8722 Is it your opinion that the Presidency Banks are strong enough to support the whole fabric of Indian banking on an occasion of that kind?—I suppose I am

at liberty to say Am I to express opinions as to the solvency of Presidency Banks?

8723 I am not asking as to their solvency, I am asking as to their capacity to stand a strain in which they had to support not only their own liabilities but also a large part of other banking liabilities?—They might to a limited extent take on other banks and help other banks through, but of course we know that in one case they failed themselves, did they not?

8724 What is in my mind is this, that it may be the case that with the great growth of deposit banking during the past 10 or 12 years, and the growth of dependence on Presidency Banks, while they are very well able to look after themselves, they would not, perhaps, be able to support all the banking interests of the country?—But why the dependence on Presidency Banks? You said just now With the growth of joint stock banks and their dependence on Presidency Banks

8725 You told me earlier in your evidence that if they were to get into difficulties they would try to borrow from Presidency Banks?—Yes that is assuming difficulties They would naturally look first of all to the Presidency Banks

8726 Ten years ago there were no banks, or possibly about half a dozen, who were in a position to get into difficulties They did not exist?—Yes

8727 But that is no longer the case?—No, there are a great many now

8728 Does not that make the whole situation more complicated and serious?—It does, but the remedy is for the Government to lay down restrictions, and say, "You shall only conduct your business in this manner" If the Government will only do that, you will get a form of banking which is going to do a lot of good It will reach the places that Europeans do not go to, and you are going to get out the deposits We want the Government to come forward and say "You have to comply with certain restrictions," and I consider that these banks will fulfil a very useful rôle, provided they are put into leading strings

8729 But even if they conduct their business quite moderately and on cautious lines, the mere growth of smaller banks necessarily having small reserves, complicates the banking position, does it not?—Yes, to this extent, that it exposes you to greater liability to failures

8730 No one would expect a small bank to keep such a very large liquid reserve that they could get through a grave crisis unaided?—No

8731 Not in India?—No

8732 So that if these banks grow there will necessarily be a great growth of institutions which would be in need of some outside assistance at a grave crisis, and that is a new thing?—Yes, new to the extent that there are more of them, and of a less solid type than those which have gone before

8733 Do you think that if the reserves of the three Presidency Banks were amalgamated, and you had a stronger central institution, that might prove valuable at a time of crisis of this kind?—Why do you want to amalgamate them if they are there now? It makes no difference if you put the three into one

8734 Is it not your experience as a banker that three reserves in one are of more value than if they are separate?—It would be bigger

8735 Would it not be more valuable?—If you put three reserves together, there are always the corresponding three liabilities put together

8736 But is it not your experience that if three banks amalgamate, from the point of view of their reserves they are stronger than if you have the three banks separate?—Yes, that is so

8737 Would not that apply to the Presidency Banks?—If they were united.

8738 Yes?—Yes, but do you want to unite them for the sake of meeting this danger?

8739 It is one of the objects which I have in view Do you think there is anything in it?—The reserves would be stronger if they were administered by one, undoubtedly

8740 And that is an important and relevant consideration, because the banking position in India is

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[Continued

becoming more difficult than it used to be through the growth of smaller institutions?—Yes I take it, however, in the event of difficulty, banks would repair to the Presidency Bank in their own sphere, so to speak, if they were in Bombay they would go to the Presidency Bank in Bombay or in Bengal to Calcutta, and they would be tided over in that way.

8741 (Chairman) That is, provided that the Presidency Banks thought that the institution was one which ought to be helped?—Yes, undoubtedly.

8742 You would not assume, or wish other people to assume, that whenever one of these minor institutions got into distress the Presidency Bank would as a matter of course carry it over?—It could not do so in the case of the Bank of Burma the other day, the Bank of Bengal refused to step in and help because it was not a genuine case.

8743 (Mr Keynes) So that if there is a crisis in one Presidency at present, only the funds in that Presidency are freely available?—They can be transferred.

8744 But there is difficulty in that?—No.

8745 We have had evidence that when there was trouble in Madras not many years ago Madras had to depend to a very great extent upon its own resources?—That may, of course, have been due to the fact that the treasuries down there were more or less empty at that particular time.

8746 Would not that kind of difficulty be avoided by a central institution which had an eye to the whole country?—No, in the case which you have just mentioned, Madras was probably empty, and the only way you could get over that was by sending down hard coin, is not that so?

8747 Quite so?—Even if you had a big Central Bank, and even now that Government have simplified matters considerably by giving big transfers from treasuries to other treasuries, there is still an enormous amount of money carted about the country actually in hard cash.

8748 It would be to the interest of the central institution to send cash to any branch which was in trouble, or to any part of the country where at the moment it was wanted?—Yes, it could still be done now.

8749 It is nobody's business to do it now?—I am afraid I do not understand you. Nobody is going to offer money to a small bank in difficulties until it asks for it, or unless it deserves it.

8750 I am suggesting that it is not the business of the Government or of the Bank of Bengal to remit surplus funds to Madras because the Bank of Madras is rather short of funds?—No, quite so.

8751 If they were all one central institution it would be their business?—It would be the business of the central institution. It would find that it was getting better rates in Madras probably if there was a shortage there, and it would send money down there. If it sent money down there it would send the rate up in Bengal or Bombay probably.

8752 That would be an advantage, would it not?—I do not think Bengal would accord you thanks for it, or Bombay either. If you send money away to one place where there is a bigger demand, it would simply tend to put up rates all round elsewhere.

8753 But from the point of view of the country as a whole it would be plainly an advantage, would it not?—I do not see that there is any enormous advantage if the difference is only one per cent.

8754 I did not imagine that case, I imagined the case of a real temporary difficulty. If there were a central institution it would be rather easier than it is now to relieve that temporary difficulty?—I do not think there is very much to be made out of that. It seems to me if the money is not in the Treasury at Madras to assist in a case of that sort, it would have to go in hard coin, and whether it is sent by the Calcutta bank or by individuals or an ordinary joint stock bank, is immaterial so long as it gets there.

8755 But at present if it is in Calcutta it is only available in that Presidency, it is not available in Madras?—They may have a transfer of it.

8756 But in order to get that transfer the Bank of Madras has to raise funds in Calcutta?—Yes.

8757 Which is plainly more difficult for it to do at a time of crisis than if the authority of Calcutta is also the authority of Bengal and Madras?—But do you not suppose if the Bank of Madras were pushed they could not send up to Bengal or Bombay and offer to borrow there and get the money sent down in some way?

8758 There is no doubt whatever, they do that now. But I am assuming this case, that while that would be done to a certain extent there is some difficulty in it?—There might be, but at the same time it is perfectly open if rates are very high in Madras for Madras to send to Bombay or Bengal to get the money sent down. I do not think the Central Bank would make it any easier.

8759 I do not think that is my point, but I will not pursue it. I have only one other point. If the notes preserve the same form and the same appearance and have the same guarantee, would the fact that they were managed by a Central Bank militate against them?—These are things that are very difficult to express. You have got to be in India to realise these things. Every little change means such a great deal.

8760 I am not expressing an opinion, I am asking a question?—Exactly, but I am really giving you the answer in a different way. It would, I think. Any change of that sort would be bound to affect the note circulation for many years.

8761 If the notes preserved the same appearance, and if the Government did not withdraw their guarantee, you think the fact that they are issued by a Central Bank would make people distrust them?—I think it would, the same as when the Government tried to push sovereigns into circulation they went to a dis count. It was something new. When they tried to circulate sovereigns it was something new and people said "No, we will not have it."

8762 But there will be nothing new in the appearance of these notes or in the security. You think that the ordinary person who would be ignorant enough to be disturbed, would have knowledge enough about the existence of the central bank?—I think that the chance is that it would create a disturbance in circulation.

8763 You do seriously say that?—I think it would in so far as it would be novel. It is a thing that would be got over in time, there is no doubt. It was only a few years ago when the Government of India printed the Government promissory notes on different paper, and made it very dark blue, and there was all sorts of talk about that.

8764 You would not say that it was more than a temporary difficulty?—No, not more than a temporary difficulty, but there would be difficulty at first, I think. As I tell you, there was the same thing when the Government promissory notes were changed from white and red into mauve. The people wondered what it all meant.

8765 (Sir Shapurji Broacha) Do you think the Presidency Banks are doing their business very efficiently within their spheres of influence?—I think they are.

8766 Money, of course, is very cheap from June onwards?—Yes.

8767 Supposing the Government were to lend some money during the busy season, I think the rates of interest would not rise so high?—No.

8768 The State Bank could not do anything better?—No.

8769 When the Government commences to lend the money?—Quite so.

8770 A State Bank would require State Directors?—Yes.

8771 It would be only making things cumbersome? I think it would.

8772 Instead of the State having one Department of Accounts, it would have to have two Departments of Accounts?—Yes.

8773 I suppose you know that wherever the Government have taken responsibility, the Government Directors have failed to carry it out? Do you know of that in the Bank of Bengal, and in the Bank of Bombay? I will tell you the history of it. The

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Government made a rule not to lend more than one lakh to any person, and they lent a firm 23 lakhs without the Government Directors informing the Government, and the result was, when the Government asked for an explanation, they said it was a serious case, and they were not bound to bring it to the notice of the Government?—A serious case of necessity to make the advance, I suppose?

8774 Yes So that the Government Directors on a State Bank are no assurance of the Bank going on according to the Statutes?—Apparently these Government Directors did not justify their position, but it does not follow that others would not

8775 I think India is a very large country for one bank?—Exactly

8776 For people sitting in Calcutta to regulate the credits of Bombay and other places?—Quite so

8777 I think there is better accommodation, and a better way of negotiating with a bank, within the sphere of your influence, than by somebody sitting at the end of India?—Yes, you would get into more intimate touch with your banker

8778 I suppose you know that all the exchange banks keep their balances free in the Presidency Banks at present?—In Bombay

8779 Yes, they keep their free balances in Presidency Banks without interest?—Yes

8780 I do not think they would do more with a state bank at present?—No

8781 They would keep it in the same way?—Yes

8782 The State Bank would be no advantage in the way of keeping balances over the way the Presidency Bank keeps them now?—Not any more than they are at present

8783 Now about the endorsement of Government paper Do you know that the Government have asked for opinions in what way to prepare paper, whether with coupons or whether they should do away with the endorsement or not? They have sent round a circular for the opinions of all Chambers of Commerce and all Stock Exchanges, and so on. Do you know that the Indian Government paper is more a banking security than Consols, even, in one respect, because the interest counts up to the day of sale, therefore you have to count in the interest in considering whether you are making a profit or loss, because interest goes up to the day of delivery?—Yes

8784 That is not so in Consols, which are like shares, interest is payable on certain dates of the year, and the endorsement is a sort of security, something like a bill endorsed by different people?—To preserve the chain

8785 And all the people are responsible for anything wrong with the endorsement with all their signatures above one another?—Yes

8786 So, of course, in India, where the people are illiterate, it is a great safety to widows and other people First let me ask you this In India the signature of a widow or a woman ought to be witnessed by two witnesses and a Justice of the Peace?—Yes

8787 That is the rule?—Yes

8788 And that is their safety at present Their husbands could not force their paper out of them, and their sons could not force their paper out of them, because the woman has to sign, or put her mark before two witnesses and one Justice of the Peace Therefore it would be a very difficult thing for the husband or the son to get it from the woman?—Yes

8789 I suppose you know that some of the Chambers of Commerce and other people have facilitated that by attaching coupons where the passing of the note must be by endorsement, and the Stock Exchange have given their opinion that the note ought to be prepared with the coupon for six months' interest attached, but passing the possession of the notes must be done by endorsement?—Yes

8790 That would facilitate interest-taking?—Yes

8791 You think that the currency office should give whatever is asked, gold or rupees or currency notes, against demand?—Yes, to the extent that they can give the gold.

8792 Then they stop giving gold?—If they have not got it The Government do not undertake to give them gold, of course

8793 Do you think it is necessary to undertake to give gold?—No, I do not think it is necessary

8794 Do you know that in France they do not give gold when asked?—They will not, no, they can keep it back

8795 Ought the Government to accustom the people to the refusal of payment in gold by currency offices? Otherwise when it is not given they will be alarmed?—I prefer the present arrangement from a banker's point of view When the Government can give us gold they should give us gold Of course, if they cannot we quite understand it

8796 You know that the banks are unable to reach the cultivators of India because they are such a small people, but when the rate of interest is reduced the sentiment for money is easier when the bank rate is eight or nine per cent the sentiment becomes rather alarmed, and the people are rather more afraid to lend than they would be at five per cent, is not that so?—Do you mean depositors?

8797 No, I mean when the bank rate is eight per cent the middlemen who are lending outside are generally more alarmed than when the rate is four per cent?—Yes

8798 When the rate is easier the middlemen would be better able to afford to lend money to the cultivator than when the rate is high?—Yes

8799 So the cultivator does benefit to that extent? He easily gets his money from the middleman?—Yes, I think there is a benefit in that respect

8800 (Sir James Begbie) I understood you to say that the bank rate of Bengal is usually 1 per cent less than the Bombay rate?—Not always I mentioned the case that it sometimes varied, but only sometimes

8801 I think the usual position is that in the late autumn the Bombay rate is below the Bengal rate, and then in the spring the Bengal rate falls below the Bombay rate, is not that the usual thing?—That probably is about it, yes

8802 With regard to the State Bank you say that the size of India is against the efficient working of a State Bank Do you place much importance on that objection?—Not a tremendous amount, but I do think it is an objection.

8803 There are several banks which have a chain of branches all round the globe, and they are to all appearance efficiently working, are they not?—You refer to exchange banks, and so on?

8804 Exchange banks and foreign banks?—Yes

8805 One question with regard to Council Bills You approve, I think, of the existing Council Bill system, including, I suppose, sales in excess of sales to meet the home charges, that is in Part IV of your memorandum?—Yes, I think that is what I stated (see page 615, paragraph 21)

8806 I understand from your note that you take the purely trade point of view that the bills provide money in India?—Yes

8807 Do you think that is the only consideration which should be taken into account?—In selling in excess of the requirements of the Secretary of State?

8808 Yes?—It is one consideration

8809 It is the only one you put, is it not?—I think it probably is

8810 You go on to say that these sales "are economical, inasmuch as they obviate the expense of the actual export of gold from London, and its subsequent re-export from India." Do you mean re-export from India for the purchase of silver?—Yes, or the replenishing of the Secretary of State's balances if he were not able to sell any more

8811 In the case of purchase of silver, against any saving effected as you describe, would you not put the cost of shipping the silver?—Yes

8812 (Mr Gillan) I want to ask you a few questions about this point of the Government lending money in India. I think you said you would require security for the loans?—Yes

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[Continued

8813 And that you would take Government paper or Port Trust Stock, or things of that kind?—Yes

8814 But not commercial paper?—Do you mean bills

8815 Yes?—I do not think so

8816 That is what you said, I think?—I did not say bills

8817 No, you said you would not accept them?—I think not, no

8818 Paper of that kind might often be really very good security, might it not?—Yes

8819 The kind of security on which a bank would lend?—Yes

8820 What I wanted to ask you was, in excluding commercial paper do you do so because as a matter of fact it is Government which is running the business at present, or because you think the security in itself is not good?—There would be no great object in Government taking, and, in fact, it would be very burdensome and very cumbersome if Government were, say, to take hundis, in which the Presidency Banks hold very large sums, I think there is a difficulty in making advances, supposing these were to be discounted and held by Government or not exactly to be discounted, but made over to Government

8821 I take it that is a difficulty which arises out of the fact that Government is running the business?—Yes I mentioned these Government securities and debentures as I think they are clean and easily handled

8822 I am not quite clear how you would conduct the operation of putting the money on the market I think you said that you would not have a system of tender, but that Government would announce the rate and invite applications, or wait for applications?—I suggested that as far as the India Office were concerned

8823 And you suggested it for India too, did you not?—I did not suggest it for India

8824 (Mr. Keynes) I think you suggested that the Government should fix a rate, wait for offers, and then, if the offers were more than it could stand, raise the rate?—That is it

8825 (Mr. Gillan) That is what I understood The point I was coming to was this Supposing the Government has announced a particular rate, we will say 5 per cent, how is it to distribute this money between the different classes? Is it to be merely to the first comer? Suppose Calcutta is the first and puts in an application and asks for all the money the Government happens to have at the time, then is Calcutta to get it?—It would appear so

8826 In spite of the fact that possibly there may be a greater demand for money in Madras?—In Madras it might be I have not thought that out as to whether it would be expedient to advertise, and say that the Government were prepared to lend out so much in gradual amounts

8827 Is not that the difficulty?—It probably would be

8828 I think you contemplated that some Government official should have the power of varying the rate from time to time?—Yes

8829 There is another point of the same kind Suppose you go outside the Presidency Banks and lend to Joint Stock Banks, then some Government official would also from time to time have to determine the status of the applicants, to determine whether they were banks of a kind to whom he could properly make advances, is not that so?—Yes

8830 Would you give that power also to the Comptroller?—If he had the security—if the bank had the security to offer It seems to me that is all the Government requires They would not require to draw the line at all if they had the security

8831 It is the Comptroller General who is to do this business?—Yes, or any other official designated by Government

8832 Without reference to the Finance Department?—He would have to be in touch with the Finance Department

8833 But do you not get difficulties there? If he has to keep in touch, as he would have to keep in touch, with the commercial world on the one side, and the

Finance Department on the other, and this is business of a kind, I presume, that would have to be done immediately?—?—Would it not be possible for Government to say beforehand what they are going to have available, or what they could make available to finance trade in the course of the season? The Finance Department could do that

8834 Estimates of that kind must necessarily vary?—I quite agree They could be revised from time to time, but they could easily underestimate

8835 The drift of these questions is this I want to put to you in a general way that lending money is a difficult kind of business for Government to run I put it to you, and I ask you whether you agree with it, or do not agree with it?—I do not think the difficulty is very great when you are dealing with security You have got security It seems to me that Government officials are doing much more difficult things

8836 I think you said that if Government lent the money the advantage would go not only to Presidency Banks but it would work its way down to the Joint Stock Banks?—Yes

8837 But you doubted whether it would reach further? You doubted whether it would reach the cultivator in any case?—Yes, quite so, a modicum might reach him

8838 I take it, however, that your view is that a high rate of interest is a big drag on trade as a whole?—Yes

8839 I do not know if you would agree that possibly it would affect the cultivator in this way, that the man who is dealing in produce and is taking money is taking advances in order to enable him to do so, and if he has got to pay very high rates possibly he cannot give the cultivator such a good price for the produce?—Yes

8840 Is that possible? I am asking your views?—If the middleman is paying a big rate —

8841 Yes, then he is doing his trading under onerous conditions?—That is not such an important factor as if it is impossible or difficult for him to get the actual coin down I do not think a matter of 2 per cent, the difference between 7 per cent and 9 per cent, would much affect the price which the cultivator would get

8842 You do not think so?—No, I do not He takes interest as an incidental part of his business

8843 What are the classes generally from whom you would get your deposits? Can you give me any indication?—We get them roughly from everyone in India, with the exception of Government servants, who never seem to be able to save money

8844 What classes are included?—Indians of all sorts

8845 Professional men chiefly?—Pleaders—they make numerous deposits—barristers and doctors, &c

8846 Is there any other class you can mention apart from the professional classes?—Natives?

8847 Yes?—Yes, there are lots of natives who have deposits

8848 What are they?—It is difficult to say

8849 I mean quite generally?—Practically it is from all classes

8850 On the other hand, to whom do you make loans?—We make very large loans to Indians, and a good deal to Europeans, of course

8851 Traders?—Yes

8852 Apart from traders, do you lend to the lesser moneylenders, so to speak? Do the village moneylenders ever come to you for money?—No

8853 So you would say that there is no channel of communication at present?—No, he is on his own, so to speak

8854 Can you tell us about this system of cash credits to agriculturist societies? I understand your bank have been going in for that Have you done much of it?—I started that, as a matter of fact, in connexion with our branch at Cawnpore The matter was represented to me, and I had a talk with Sir John Hewett on the subject and we did go in for it, and we did make loans It is no breach of confidence, as it is stated in their reports, to say that the Unao Town Bank was our principal borrower, but they became so very wealthy that they do not

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[Continued

require any finance now They are on their own We have helped them through So far as the bank was concerned, I had some difficulty in persuading the management at my head office They took the view that these might be very serious competitors My view was that these co-operative banks reach a class of people which it is impossible for us to reach There are crops there to be financed, and you have only to take a journey through an agricultural tract to see the crops there These co-operative banks are a power in the land, and we have to recognise that they have come to stay I said If you want to help them now, you may as well lend money to them and get a fair rate, as let the money lie idle Most of them have become independent now, and do not require assistance

8855 Do you look forward to a development of this kind as making it possible that there may be a connexion, which is at present wanting, between the Central Bank facilities in India and these local rural facilities—getting the money down and up again?—Yes, in so far as even Joint Stock Banks can help them we are helping trade by lowering rates all round, and I know that now some of these banks have invested in Port Trust Debentures, and so on, and when they are pressed they say, "We will borrow on these" Previous to that I gave them temporary loans on their promissory notes, which are the joint and undivided responsibility of every member of the society I must say it was an experiment, but we came perfectly well through it

8856 You think it was good business for the bank?—I had a great deal of sympathy for these co-operative banks, and I induced my bank to go in for it I understand the Alliance Bank have taken to it also in the United Provinces

8857 You mentioned the difficulty in connexion with the system of Government paper The great bulk of the Government paper is held in this endorsed form, is it not?—Yes

8858 There is an alternative, that is to say, stock certificates?—Yes It is not very well known, I think

8859 It is not so popular?—It is not so well known, for one thing In my note to the Government on the subject I suggested that they should be more widely known, and that an alternative might be stock certificates, paper as it now is, or bearer bonds

8860 Do you think that bearer bonds would be popular with Indians?—No, I do not think so With business people it would be quite popular and would save a great deal of trouble

8861 Apparently, in spite of difficulties, they do prefer these endorsement papers?—Yes

8862 The Bank of Bengal, as agents of the Government of India, has to accept the responsibility for the accuracy of these endorsements, has it not?—Yes

8863 So that it is natural that it should satisfy itself, as far as possible, that the endorsements are correct?—Yes

The witness withdrew

Mr M R SUNDARA IYER called and examined

8876 (Chairman) You are, I think, Secretary of the Economic Association of Madras?—Yes

8877 You have been good enough to prepare a memorandum for us, and I propose, instead of asking questions on all that you have written, to print that memorandum as part of your evidence (see Appendix No. XXVIII, page 620), and only to supplement it by questions that I ask to-day I would like to turn at once to the questions which you have not dealt with in your memorandum Take, first, the question of capital expenditure, what have you to say to that?—All that I would say before this Commission is that it will be impossible to raise enough capital from England as we have been doing hitherto. There are various reasons for that. The first reason is that we cannot raise it so cheaply as we have been doing it hitherto, because  $4\frac{1}{2}$  per cent. 5 per cent. and  $5\frac{1}{2}$  per cent. seem to be the rates for some of the Colonial securities. The second

8864 Another difficulty which you mentioned was I think, that the endorsement by an agent of a railway company had not been accepted?—Yes

8865 If the agent had been legally entitled to sign for the company the bank would have had no option but to accept his endorsement, would they?—You mean at the Public Debt Office?

8866 It must be a legal point, must it not?—I do not quite follow you there

8867 As I understand, in certain cases, according to the constitution of the company, there are certain officials who can sign endorsements, but they are not legally entitled to bind the company?—I see

8868 It must be a legal point like that?—Yes They might have limited power

8869 I only want to make it plain that the bank could not act in a case of that kind without consideration and legal advice?—Yes, in that case that probably was so In the case of another mercantile concern, where they disputed the right of an attorney to sign the paper, it was said that under the Articles of Association it was not contemplated that the company should ever hold Government paper, and yet they could invest the money in everything else The Government said in effect No, it is not contemplated that you should ever handle Government paper, you are cotton merchants only

8870 (Lord Faber) May I just ask one or two questions more? If the Government has a certain amount of money to lend on specified securities would it do for them to ask for tenders from all banks?—I do not think there would be any objection if it were notified

8871 Then you would get away from the difficulty of favouring one bank as against the other in rate or anything else, would you not?—Yes

8872 Does the Indian Government lend its money out well now, in your opinion?—No, it is the biggest hoarder in India

8873 Another question, which is rather a banking question. If the commercial banks lend to these co-operative land banks in India do the commercial banks find they can get paper and security from the co-operative banks?—I think they are becoming that way now As I said, we did it first of all purely as a trial on these promissory notes which we had endorsed over to us, which the rural bank itself had got from the cultivators' society We took their endorsements over

8874 (Chairman) A witness the other day told us that if you went to the Currency Office in Calcutta and asked for transfers to certain places the Government would give you a transfer at a better rate if you agreed to accept payment in sovereigns than if you took payment in notes or rupees, have you any experience of that kind?—Absolutely none

8875 You have never known it happen in the case of a transfer between Calcutta and Cawnpore?—No, I have never known it happen in my experience that I can think of

reason is that we ought to be able to get the money at the time when we want it, because we are so much at the mercy of the seasons, and when there is an additional demand for it, it will be impossible to get enough at a reasonable rate and for a short period. The third reason I would assign is that sterling borrowing always inevitably leads to difficulties, whether they be currency difficulties or other kind of difficulties In the long run it is not desirable for any country to be permanently the debtor of another country, because the debtor country will always be dictated to.

8878. What is the inference you draw from those premises?—That it is not possible for us to raise as much capital as we want from England

8879 Do you, therefore, urge that more capital should be raised in India itself?—Yes I believe that capital can be raised in India itself I would suggest

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a system of raising capital in India by means of what I may call something like the French rentes, that is by the issue of 5 rupee paper or 1-rupee paper. If loans are raised in that way, either through the post offices or through the co operative societies, or various other agencies, I think plenty of money will be forthcoming for the needs of the Government of India.

8880 Do you think much more can be raised in India than has been raised in recent years?—I think very much more can be raised.

8881 Do you anticipate that the same classes would be willing to invest larger sums, or that new classes of investors could be found?—I believe new classes of investors could be found, apart from the people who are now sending money to the savings banks, and the large class who invest their money in landed property and in other ways.

8882 If they put their money into savings banks, those are Government savings banks in India, are they not?—Yes.

8883 Government does have the use of that money, does it not?—Yes, to a certain extent.

8884 On the other hand, if it is put into jewellery it lies idle?—Yes, it does.

8885 What alterations do you think would tempt those who now put their money into jewellery or hoard it, to put it into Government securities instead?—Getting some interest, however low it may be.

8886 They might do that now?—No, there would be a difficulty in this respect. A deposit in the savings bank is a matter of some difficulty to the large class of illiterate people. There is the question of going to deposit the money in a savings bank, and then there is the question of the signature, which would be a great hindrance in many cases. People who are not able to write their signatures properly—and among the Indians there are so many illiterate people—would be able to understand taking their money to a Government office and getting a scrip of paper for it, and then, a few months afterwards being able to go to the office and hand in the paper and get their money back with the interest added.

8887 What you suggest is really the issue of bearer securities?—Yes, something like that, a kind of certificate really which may even be transferred or assigned.

8888 In very small denominations?—Yes. If you were to adopt some such system as that I am certain you would be able to get in each taluk from 10,000 to 20,000 rupees.

8889 Do you think there is scope for the issue of much larger amounts of rupee loans of the present character in India?—Yes. I think I have got some figures here showing how much we have taken back to India.

8890 It is the case, is it not that India has been re absorbing rupee paper in recent years?—Yes.

8891 What figure do you think the Government of India could safely count upon as being able to issue year by year?—I do not think I would be able to say that. I think it must first be tried.

8892 I think in recent years they have issued about 2 millions sterling in rupees, have they not?—That is so.

8893 In that case, would you go on increasing the amount experimentally?—Yes. The loans at present raised in India are not raised in a proper way. They are raised through the banks and syndicates, and therefore a large amount of the money that is available does not come in at all.

8894 Would you advise that class of loans being raised in any other way than they are now?—Yes, I would advise that they should be raised through the post offices, or through the co operative societies, or through the district boards, or through any other agency which is in touch with the classes from whom these loans can be raised.

8895 Let me turn now to another big question. Are you in favour of the establishment of a State bank?—No, I am not in favour of a State bank.

8896 Will you tell me your reasons?—First, there will be the disadvantage of having the notes issued through the State bank. Certainly, the note circula-

tion will decrease once it is handed over to a State bank, because the people will not have quite the same amount of confidence in a State bank note as they now have in the Government currency note, that will affect in its turn the circulation of the rupee, and that will complicate the question. Secondly, all of us believe that the Secretary of State for India and the Government of India are responsible to the Press and to public criticism, and I do not think that the Press and public criticism can in any way have any control over a State bank if it invests its money in the Argentine or in South Africa. Even if the system were introduced of having three Government directors as the old banks had in India, those three Government directors would always be in a minority as against the other directors. That is another reason which, I think, would be against the popularity of a State bank—that the Government would have no real control.

8897 You think the Government control would be insufficient?—It would be insufficient. There may be an objection among the people to entrusting their money to a State bank. I do not think the money would be any safer than where it is now, and the note issue could not be popular because, as I say, bank notes would not be accepted with the same amount of public confidence as the Government currency notes are. You want banks in every village, a greater decentralisation of the banks is what you want.

8898 You think India is too big as a whole for one State bank?—Yes, it is too big. You want money in every village, and I do not think the present banks finance Indian trade or Indian exigencies to the extent that they ought to.

8899 Therefore, you are in favour of more decentralisation, and you are not in favour of centralisation?—That is so. Even the banks as they are, I think, should have more branches in the districts and villages.

8900 Do you think that the Government could do any more than it has done to encourage the opening of new branches by the bank?—No. In India they are now very busy establishing co operative societies, I think if that work could be done properly, it would after some years prove to be the means of helping almost all classes in the country.

8901 Do I understand that you look rather to the spread of the system of co operative societies than to the spread of actual banking?—Yes.

8902 That is, if you have the kind of assistance that is needed from the Government?—Yes. I will explain it in this way. We had large deposits in banks until the recent failure of one bank at Madras, and since then people have been investing their money in landed property and in other ways.

8903 Have you studied the banking conditions of Northern India at all?—Only to a very small extent.

8904 Have you formed any opinion whether the Government of India ought to exercise greater control over all the institutions calling themselves banks?—I do consider that they should do so, not only with reference to the so called banks which are not, properly speaking, banks, but also with reference to money-lenders and all those who place money at the disposal of the public.

8905 You think they ought to exercise such control?—Yes, over either banks or money lenders.

8906 Now as regards the purchases of silver in London, what have you to say about that?—I think I have stated in my memorandum (paragraph 34, page 629) that I would stop the profits on the rupee coinage being added to the Gold Standard Reserve, and I would keep the profits in bullion so that they could be used for silver purchases.

8907 I do not follow your reasons for that recommendation?—There seems to be a good deal of misapprehension about having a silver branch in the Gold Standard Reserve. There is no necessity for having a silver branch in the Gold Standard Reserve if you have a fund for the purpose of purchasing silver. I think if one were able to point to such a fund as I suggest, that would put an end to all the misunderstanding which there has been of recent years about



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the silver branch. I think some such fund is absolutely necessary for coinage purposes

8908 At the present time the profits on the rupee coinage go to the Gold Standard Reserve?—That is so.

8909 The object of the Gold Standard Reserve is to maintain the exchange value of the rupee?—Yes

8910 I think you have expressed the opinion very clearly and definitely in your memorandum that the maintenance of the exchange value of the rupee is of the highest importance to India?—That is so

8911 In matters of currency and exchange that is the first consideration which the Secretary of State should have in his mind?—Yes

8912 If you put nothing from the profits of the rupee coinage into the Gold Standard Reserve, how are you to build up that Gold Standard Reserve?—I think the present amount would be sufficient for the maintenance of exchange

8913 Where would you wish that reserve to be held?—I would wish it to be held in London, mostly in gold, and in securities—a few millions of it in securities, say, because then it earns interest

8914 What sort of figure would you suggest for the actual gold?—I cannot suggest a figure, but I would say the major portion of it may be held in gold, and the rest of it in securities

8915 Would you say that 10 millions in gold would be sufficient, or would you prefer 15 millions?—I would consider 10 millions to be sufficient, ordinarily

8916 What leads you to think that 10 millions in gold would be sufficient?—It is simply this, that I would rather like the gold to be earning some interest instead of letting it lie idle. That is the only consideration which makes me say that. These securities can be easily realised in any time of stringency

8917 You would agree that the first thing to have in security, would you not?—Yes

8918 To be sure that your fund will be adequate for the purpose for which you have created it?—Yes

8919 And you would agree with me, would you not, that you must not jeopardise its success in your desire to earn interest?—No

8920 Since the Gold Standard Reserve has been established there has only been one serious crisis, namely, the one in 1907-8?—Yes

8921 The amount of gold that was required at that time was more than the 10 millions you have named, was it not?—Yes

8922 Yet the crisis was not a very severe one, was it?—It was a severe one, and there were some international complications also

8923 But the centre of international complications was New York and not London?—That is so

8924 A London witness said to us that the situation would have been much more serious had the storm centre been in London?—I think he would know better than I

8925 Take the Indian side, you have known much worse famines occur in India than occurred in that year, have you not?—Yes

8926 It might happen even that a period of war coincided with a period of famine?—Yes

8927 Bearing in mind that, as you have admitted to me, the first object is security, do you not think you are putting the figure for the reserve rather low?—No

8928 Having in view all those possible eventualities?—I would only say that I do not look upon the fund in the Gold Standard Reserve as the only means to tide over such a serious crisis

8929 To what else would you look?—I would look to the gold reserve in the Paper Currency Reserve, to getting gold from the cash balances, and then, if necessary, some loans could be raised

8930 Of course if the storm centre is in London that would not be propositions for raising loans?—No. I would gather the reserves for that then

8931 Under such conditions as I have suggested, the balances might be very low?—Yes, they might

8932 But you would still have the Paper Currency Reserve to draw upon?—I think we cannot go on storing up gold in the expectation of such a great crisis. No figure would be high enough to meet such

a serious crisis as would be caused by a war in India with famines and international complications all occurring at the same time. I do not think any figure would be sufficient to provide for such a crisis

8933 I do not think they would all arise together, but I do want to suggest to you that there are these various circumstances which, either in combination or separately, might produce a severer crisis than the experience of 1907-8?—That is so

8934 And that even in 1907-8 you required more than 10 millions of gold?—That was so

8935 Therefore, perhaps it would be wise before you begin to think about interest, to accumulate in the reserve more of the actual metal than you have suggested?—I do not fix the figure at 10 millions. It may be 10, 12, 13, or 15 millions, it all depends on the state of Indian exchange

8936 One or two witnesses who have come before us have thought that the strain upon the Gold Standard Reserve could be relieved if the circulation of gold in India could be increased, but I think from your memorandum that you are not in favour of increasing the gold circulation?—No, and I may say that I do not believe it could be increased in any way. I have pointed out in my memorandum some of the places where the gold would go if it were issued

8937 I think you hold that a very large proportion of the gold which has been taken by India in recent years has not gone into circulation at all?—That is so, it goes into the melting pot in the ways that I have mentioned in my memorandum (Appendix XXVIII, page 624 *et seq.*)

8938 You have pointed out to us in your memorandum that the laws of inheritance tend very strongly to increase the hoarding of gold in the form of jewellery?—Yes, very strongly

8939 Do you suppose that in a time of crisis much of that hoarded gold which is held in one shape or another would come out?—If it was a personal necessity it would come out

8940 That is to say, if the pressure of famine forced the people to sell it?—Yes

8941 Do you think it would come out of the hoards except under those conditions?—It would not come out except under those conditions, because no one parts with his jewels until the worst happens

8942 Do you regard the gold in circulation or in hoards as a material support for exchange?—No, I would not consider it to be a material support

8943 As far as exchange needs protection, you could only look—?—To London

8944 To gold in the control of the Government?—Yes

8945 In the course of your memorandum you say that recent experience shows that capital is not flowing freely from England to India?—That is the case (see page 620, paragraph 3)

8946 It was, I think, the hope of the Fowler Committee that with the establishment of a stable exchange the flow of capital from this country to India would be very much encouraged?—Yes, it was

8947 The stable exchange has been attained, has it not?—Yes

8948 Why do you think, then, that the hopes of the Fowler Committee have not been realised?—I do not know whether I can say much in explanation of it, except that the higher rate of interest elsewhere has been a temptation

8949 In other words, it is due to the superior attractions of other places?—Yes

8950 And it is not due to any fault or deficiency on the part of the Indian Government?—No, it is not the fault of the Government of India

8951 In your memorandum you give figures showing both the imports and the circulation of sovereigns in India, may I ask from what source those figures are derived?—From Mr Atkinson's published statistics. They are all taken from there

8952 Do you know at all how he arrives at the number of sovereigns in circulation?—No, I am taking it on trust

8953 In your opinion, I understand that the sovereign is not a coin which is required as a coin by

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the people of India?—No, it is too large for their ordinary daily transactions, and the larger payments are made in notes

8954 Would you say that is true of all the districts in India?—I can speak only as far as my knowledge is concerned

8955 There are considerable differences in the different localities, are there not?—There are differences. But one knows the money that is wanted for the ordinary transactions, and I should rather say that what I have stated would be the case in Bombay and Madras, except perhaps with a few traders in Bombay

8956 Would you agree that, as far as they can do so, the Government of India should meet the requirements of the public and give them whatever they ask for?—I will not say that the Government of India should be obliged to give them gold.

8957 But if they have gold to supply, and the public ask for it, they should give it?—Certainly, they may give it then

8958 You would give it?—I would

8959 In cases where the public is indifferent, what do you think is the wisest course for the Government to pursue?—To pay in silver or in notes

8960 But not in gold?—Not in gold

8961 I infer from the answers you have already given me that if they paid out in gold, you do not think that in a crisis that gold would materially support exchange?—It would not materially support exchange

8962 In regard to another question referred to us, have you any criticism to make of the management of the balances in recent years?—I have pointed out in my memorandum that it is only a temporary phenomenon, and that the balances are not usually heavy with the Government of India. It is all due to temporary causes, such as a series of good seasons and also to unexpended sterling loans

8963 So you think it is due to abnormal circumstances?—Yes, I do. You cannot expect to have heavy cash balances in the next year and the year after next I mean in successive years. The Government of India have to finance large transactions, and I would consider that even these cash balances are not a very heavy amount for them. I would leave the cash balances to the Government of India to be used for the necessities that will arise and I would not lend them to the banks, because that is not going to be useful to the Indian taxpayers, it may be useful to some of the banks, but it is not useful to the country at large if you do that

8964 Do you mean that when they have a surplus in India beyond their requirements, you would propose that they should leave it in their treasuries until they require it?—They might use it in the reduction of their capital expenditure. That is the only direction in which they can use it

8965 It is always the case, is it not, that just in the busy trade months of the year a good deal of Indian revenue is collected?—Yes

8966 And that therefore just at those months, when money is scarce in the money market, the treasuries are rather full?—Yes

8967 The money which fills the treasuries is money which will be, speaking generally, needed for the expenditure of the year, is it not?—Yes

8968 So that under those circumstances it cannot be paid out at once for capital expenditure?—It cannot be paid out at once for capital expenditure, but it is no use to lend it to the Presidency Banks, as that will not assist Indians at large. It will perhaps be helping the Presidency Banks to a large extent in their business, but the Presidency Banks do not finance Indian trade as they ought to, or as one would expect them to do. The money might be used in other ways

8969 Would you develop that a little? Suppose the Government of India did lend out money in the busy season when you have bank rates of 7 per cent of 8 per cent, and suppose the Government of India lent out enough money to bring the bank rate down to 6 per cent, do you think that the effect of that would not reach further than the white community?—It would reach further, but not so far as I have in view, where the rates prevailing are from 12 per cent to 20 per cent or even 24 per cent. I think that is

the rate at which the ordinary Indian business man borrows

8970 Then your view is that what I may call the cultivator's money market has really no connection with the bank rate?—That is so

8971 And that the relief of the bank rate would never get down to him?—It would not get down to the 70 or 80 per cent of the people who are agriculturists. If the money is going to be lent out to these co-operative societies, or to banks which are at the disposal of the people at large, then it would be useful, but I do not know whether the money could be returned back when the Government of India wants the money, if it were lent out to these institutions

8972 Might it not be filtered down to a considerable extent to those institutions through the Presidency Banks?—No, it does not do so, so far as my experience goes in Madras

8973 If it is convenient to the Government of India to lend from one source or another, and it can earn some interest by doing so, do you object to the Government lending to the Presidency Banks?—No, if it can be done without inconvenience

8974 But you do not think a great advantage would ensue to the commonalty?—No

8975 (Lord Faber) Suppose a bank is able to lend out 100l for only six months in the year, and during the other six months it is not able to lend that 100l out at all, should you think it too much to charge 6 per cent for the six months, bearing in mind that for the other six months the bank could not lend the money at all at any price?—No, I would not consider it so

8976 (Mr Keynes) When you said that the notes would be distrusted if they were taken over by a central bank, were you thinking of notes which were changed in form from the present form?—No, it is not a question of form. I think it would then be only a bank note, and that is how the people would consider it. I am speaking purely from the point of view of the ordinary man in the street, he would not consider it of the same value. A currency note he considers to be a Government note which can be offered at a Government office or treasury, where he knows the officials, and where he knows he can change the note for the 5 rupees, or the 10 rupees, that it is worth. On the other hand, if it is a bank note, it is a question of going to the bank and getting it cashed. That will affect what I spoke about as the popularity of the note, and therefore a bank note will not circulate so much as a currency note circulates at present

8977 If the guarantee of the Government is retained, and there is no change in the form of the note, and the note issue is governed by certain rules laid down by Act of Parliament, what would be the effect of the change, do you think?—I do not think the notes would circulate freely

8978 Even if the Government guarantee was maintained?—That guarantee is not of much use once this law is passed. People who hold currency notes know that they can hand them over and get payment, but I do not think any legislation will make the thing clearer to them, or do away with the feeling of distrust and the want of confidence. They will throw the bank notes on the market

8979 Do you think so, even if the guarantee of the Government were retained?—It is not a question of the guarantee. At present I do not think that everyone is conscious that all these notes bear the guarantee of the Government. It is not that that makes them use them. It is the feeling that these notes are money. These are cases in which currency notes have been hoarded to the amount altogether of 1 crore or 2 crores. A man looks upon them as money. A bank note will not have the same value in their eyes

8980 The currency offices of which you speak are very few in India, are they not?—There are a certain number of them

8981 The people cannot rely upon being able always to cash these notes, therefore?—That is so,

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but the feeling is that at any moment a man can take it to the office and have it cashed

8982 By far the vast majority of the people of India have never seen a head currency office?—I think most of the people do see the offices, because they go to them to pay in the revenue

8983 The head offices are only eight in India?—I am talking of the district treasuries, where currency notes can be changed

8984 At those places they do not necessarily cash them?—They do cash them

8985 Not on all occasions?—On every occasion I know of

8986 How many of those offices are there?—I have no means of telling you how many there are in the districts I am talking of treasuries and sub-treasuries

8987 We have received evidence that there is no great freedom of exchange at these offices. Notes may be received in payment of taxes, but they are not easily or habitually changed in the sub-treasuries. We have received evidence that what you have been saying, that these notes are cashed at these sub-treasuries for the public, is not the case?—That may be so, but any note that is taken to a treasury is cashed, the money is paid over the counter

8988 (Mr Gillan) You cannot depend on that?—No

8989 It is merely if it happens to be convenient?—Yes

8990 If they have got rupees there you can get the rupees for your notes, but if they have not got the rupees you have got no claim against them?—That is so, but when they cash your note, nobody explains that it is only a special occasion, and that the next time you will not get it. It is looked upon as a place where you can change notes

8991 (Mr Keynes) I think we were told in evidence that at the sub-treasuries notes were never cashed for the public?—Notes are cashed, I have taken the notes there and got them cashed

8992 Sometimes?—Yes

8993 Are you only saying that it is an idea abroad that these notes are cashed at the treasuries, or do you mean that they can change a note at any moment they like?—The feeling that underlies the large circulation of these notes is that they are Government notes. Once the note circulation gets into the hands of the banks, the people will have no more confidence in it

8994 I think it is surprising that the people should have that feeling of confidence in the currency notes, when, as a matter of fact, they can only occasionally change them at the offices that you speak of?—As long as the Government issues the notes and circulates them, the people will take them for their value

8995 Do not those occasions—we have had evidence that they are frequent—on which they are unable to cash them rather shake their confidence in the notes?—It does not matter, as the man can go to a shroff and get a note cashed. He knows he can get it cashed anywhere, and that is why there is a feeling of confidence

8996 I am suggesting that this confidence does not really depend upon their being able to take it to the currency office, but on the general position which the notes have attained?—I think you attach too much importance to their being changed at the Indian currency offices, but I would say there is a feeling in the mind of every man who has got a note in his hand that he can immediately turn it into cash, as the Government is responsible for its payment immediately whenever he wants the money. That is the feeling which has brought about the large circulation of the currency notes, and Indians will not have the same confidence in a bank circulating its own notes. It may be curious and it may be surprising, but that is the feeling, which one cannot get rid of

8997 You understand that I am imagining a case in which the notes are managed, as one may say, by the bank, but the Government guarantee remains, and there are certain rules regulating the issue of the notes, which are not changed in form, which are encashable at more places than they are now, but which are managed by the bank instead of by the Government—

that is the whole amount of the change. I am not supposing a case in which the present currency notes are abolished and are replaced by what you call a bank note?—I quite understand that, and any other educated man can understand it, but I am talking from the standpoint of a large number of illiterate people in India. I do not know who would undertake to go to them and explain to them that the new note is the same as the old note, and that there is no difference in it

8998 But if there were no difference, would it not be easy?—It may be curious, but if it is a bank note and not a currency note of the Government, that is enough to spoil it and to lessen its circulation. That is how I will put it though it may be strange

8999 (Sir Shapurji Broacha) Do you not think hoarding is an instinct with us in India? For the reasons you have stated in your memorandum you know it is almost inherited?—I will not say it is inherited, but all these conditions and circumstances must tend to increase it

9000 Would you not agree with me that it is an instinct which we have inherited, owing to the unsatisfactory character of the Governments that we have had in India before?—I will not say that. Assuming education advances, and that many Indians hold very responsible appointments, and that most of them know exactly what and how necessary investments are, even under all those conditions I do not think hoarding will lessen, because of the reasons which I have mentioned

9001 Of course we are getting rid of the hoarding gradually and we are bringing out the money, as we know, still it is almost an inherited instinct which we are getting rid of by education?—No, excuse me, I will not say it is an instinct

9002 In 10 years we have imported 70 millions in bullion and 57 millions in sovereigns, that is 127 millions sterling, which is equal to 190 crores of gold, and the only visible sign of that are the 25 crores left in the currency. Would such a thing happen in any other country?—I cannot say what would happen in other countries. I can only say that we can imagine that it would not happen in any other country, but we know exactly what happens in India

9003 In other countries the sovereigns are either in the banks or they are preserved, as it were, for contingencies. For instance, if England had imported 10 millions sterling, certainly 7 millions would have been in the Bank of England, or even 8 or 9 millions, whereas out of the 190 crores which we have imported into India we only see visible signs in the possession of the Government of some 25 crores. As you know, more than any other country, we keep, either for ornaments or for hoarding, gold out of circulation, do you not admit that?—It is true

9004 If there were an alarm of war, or anything like that, instead of that gold coming out of the hoards the people would ask for more, they would deliver their rupees and currency notes and ask for gold, would they not?—Yes

9005 So that a gold circulation pushed by the Government under the idea that ultimately it would help the par of exchange is a mistaken notion?—It is mistaken, and that is what I said previously

9006 Now about currency notes, we have been accustomed to currency notes for the last 62 years, have we not?—Yes

9007 If we were to make any change of policy in respect of them through a State bank, or anything like that, even though we were to guarantee them, our people would be suspicious?—Yes, they would be suspicious

9008 And they would think that the State wanted to shirk its responsibility on to the bank?—Yes

9009 So, instead of increasing the note circulation, the note circulation would go back?—Yes

9010 Whatever may happen 50 years hence or 25 years hence, the first effect of a State bank circulating notes, in whatever form you like, would be to decrease the circulation of the notes, would it not?—Yes

9011 So a State bank would not help the circulation of the notes under any circumstances?—No, it would not

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9012 On the contrary, it would put the circulation back?—Yes

9013 You told the Chairman that you think India is too large for a State bank?—Yes, I do think so

9014 Now about the wealth reaching the cultivators. We have some co operative banks, for instance, there is a large co operative bank in Bombay, and through them the money goes to the cultivators by means of the punchayats, or village communities, do you admit that?—Yes,

9015 The co operative bank in Bombay registers the assets of the village, and whatever loans are taken for the moving of the crops by the village, the amount is guaranteed by the whole syndicate of the village, that is a greater facility than any State bank would give, is it not?—Yes. I would have that, not only for agriculture but for the other classes. I would like to see co operative banks for weavers and for each class of the community in order to help that community in the particular way they want with loans and advances. They would be much more useful than any State bank could be.

9016 It would go farther down into the middle and the lower classes than the State bank would?—Yes, and they are the classes who really want the money and cannot get it cheap.

9017 If a State bank were formed with its manager and directors at Calcutta, you know that at present the directors of the Bank of Bengal are all Europeans, though the directors of the Bank of Bombay are half natives and half Europeans, with such a management for the State bank as they have in the Bank of Bengal, the State bank would be of very little service in your districts, or in any other part of India, as it would not reach the cultivating classes?—That is so.

9018 Nor the middlemen between the cultivating classes and the banks?—That is so. All that the middlemen do is they take the money at a lower rate of interest and they lend it at a high rate of interest.

9019 So that a State bank would be doing really less service than the three Presidency Banks are doing now?—Certainly. There has been a discussion in the papers, and in Parliament, in which very much has been said about the Indian view and Indian opinion. If by the word "Indian" is meant presidents of the Chambers of Commerce and the European managers of the banks, or an Indian who is a director of half a dozen banks, they would have used a very proper term, but if what is meant by the word "Indian" is the large class of agriculturists and artisans, then if it is said that the views which have been published are the views which Indians have, I think they are taking the name of the Indian in vain.

The witness withdrew.

ROYAL COMMISSION ON INDIAN FINANCE AND CURRENCY

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APPENDICES TO THE INTERIM REPORT

OF

THE COMMISSIONERS.

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VOL. I.

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*Presented to both Houses of Parliament by Command of His Majesty.*

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# ROYAL COMMISSION ON INDIAN FINANCE AND CURRENCY.

## APPENDIX I.

MEMORANDUM AND SUPPLEMENTARY NOTES ON THE LOCATION AND MANAGEMENT OF THE GENERAL BALANCES OF THE GOVERNMENT OF INDIA AND THE SALE OF COUNCIL, BILLS AND TRANSFERS. Submitted by Mr L ABRAHAMS, C B, Assistant Under Secretary of State for India

### I.

#### *Distribution between England and India*

1 The disbursements by and on account of the Government of India are made partly in India and partly in London the respective amounts in 1912-13 being shown in Statement A of Appendix II (page 72) as follows:—

		£	
India	-	-	89,734,800
England	-	-	33,963,100
Total		-	123,697,900

2 It is therefore necessary to keep the balances partly in the one country and partly in the other. The distribution of the balances between the two countries on the 31st of March of each year from 1892-93 to 1913-14 (Budget Estimate) is shown in Statement B of Appendix II (pages 74-5). It will be seen that the Revised Estimate for 1912-13 (published on 20th March 1913) anticipated that the distribution on 31st March 1913 would be as follows:—

		£	
India	-	-	19,543,889
England	-	-	8,372,900

3 The actual balances on 31st March 1913 were:—

India (Statement C, page 76)	-	-	19,268,200
England	-	-	8,784,206

### II.

#### *Location of the Balances held in India*

4 It will be seen from Lord Salisbury's Despatch of 6th May 1875 and Lord George Hamilton's Despatch of 4th May 1899, printed in the collection of papers which I hand in to accompany this Memorandum (*see* Appendix II, pages 32 and 62), that the Government of India has always been entrusted by the Secretary of State with wide discretion in this matter.

5 The actual location of the Government balances in India at the end of each quarter in the years 1895-96, 1900-01, 1905-06, 1910-11, 1911-12, and 1912-13, is shown in Statement C of Appendix II (page 76).

6 The location on 31st March 1913 was as follows:—

		No	Amount
		£	
District Treasuries	-	271	6,607,400
Branches of Presidency Banks	-	35	2,156,700
Head Offices of Presidency Banks	-	3	1,595,400
Reserve Treasuries	-	3	8,908,700

II\* The figures are not actual gross disbursements. In Statement A, as in all the other published Statements, receipts under some heads are set off against gross disbursements and under other heads disbursements against gross receipts, the differences being shown net disbursements and net receipts respectively. But the figures in Statement A serve the purpose of representing fairly the relative importance of the transactions in India and England.

7 The money in District Treasuries is so held in order to provide for payments to be made in the Districts. The majority of the District Treasuries are in places where there is no branch of a Presidency Bank.

8 Where a branch of a Presidency Bank exists, part of the Government balance is deposited in it. Similarly a part of the Government balances held at Calcutta, Madras, and Bombay, is deposited at the head offices of the three Presidency Banks. The relations between the Government and the Presidency Banks in respect of the holding of balances are partly regulated by agreements with the three banks which were last revised in 1898. The agreements provide that the Banks are to transact general business for the Government at their head offices and certain branches, that they are to receive specified remuneration, that the Government is not bound to retain at the Banks any particular sum, but that if its balance at the Head Office of any of the three Banks falls on any day below a specified minimum, it is to pay to the Bank interest "at the lowest rate chargeable on such day by the said Bank to the public for loans recoverable on demand." The remuneration of the three Banks and the minimum balances that they are to hold for the Government at their Head Office without charging interest are as follows —

	Remuneration per annum	Amount of Balance below which interest becomes payable
	£	£
Bank of Bengal	2,900	233,300
Bank of Madras	800	120,000
Bank of Bombay	800	133,000

The revision of these agreements is now under the consideration of the Government of India.

9 In actual practice the Government of India is much more liberal to the Banks than is provided for in the agreements. They usually keep at the head offices of the three Banks the following amounts —

Bank of Bengal	467,000 <i>l</i> to 533,000 <i>l</i>
Bank of Madras	A little over 133,000 <i>l</i>
Bank of Bombay	267,000 <i>l</i> to 333,000 <i>l</i>

On the flotation of a loan, and in special cases, the amounts are increased.

10 At times of great stringency in the Money Market, the Government of India grant loans at interest to the Presidency Banks. Two such loans (40 lakhs and 20 lakhs) were granted to the Bank of Bengal in 1901, one (25 lakhs) to the Bank of Bombay in 1902, one (25 lakhs) to the Bank of Bengal in 1905, two (30 lakhs and 25 lakhs) to the Bank of Bengal in 1906. The rate, where I have been able to trace it, was the minimum rate charged by the borrowing Bank on advances. In fixing this rate the Government of India has presumably been guided by the following remark in Lord George Hamilton's Despatch of 4th May 1899 (printed in Appendix II, page 62) — "I see no objection to your lending money to the Presidency Banks on the security of Government paper at such rate of interest from time to time, and for such periods, as you think best. I am inclined to think that the rate should, as a rule, not be below Bank rate." The Government of India recently informed the Secretary of State that they have received no request for such loans for the past five or six years. This may be due to the rate of interest demanded. The Secretary of State recently received a letter in which the writer said "When I was Chairman of the Bank of Bombay Government were willing to lend money to the Bank, but only at its own published rate, and naturally such assistance was declined."

11 Another form of assistance occasionally given by the Government to the Presidency Banks is that, as an encouragement to the opening of new branches, a minimum balance at a branch is guaranteed for a number of years.



12. *Reserve Treasuries*—Reserve Treasuries were established at Calcutta in 1876, and at Madras and Bombay in 1879. The considerations in favour of this course were as follows.—In the decade between 1860 and 1870 the disadvantage of depositing an excessive amount of the Government balances in Presidency Banks had been illustrated by two cases—

- (a) On 9th December 1863 the Bank of Bengal held a Government balance of 2,968,000*l*, and its cash assets consisted only of 1,000,000*l* (a special coin reserve against Government deposits) and 998,000*l* available against the remainder of its liabilities to the Government and its liabilities to private depositors. The Government found difficulty in withdrawing money standing to its credit. “For about eight or ten weeks the anxiety was very serious.” (Sir C. Trevelyan)
- (b) The position of the Old Bank of Bombay was unsatisfactory from 1863 until its liquidation, with a loss of capital of about 1,900,000*l* in 1868. In 1865 and in 1867 there were large withdrawals by the public, and on each occasion the Government had to promise assistance to prevent, or check, panic.

Similarly in 1874, at a time when the Government had a balance of 1,000,000*l* at the Bank of Bombay, the Bank remonstrated against the proposed withdrawal of 350,000*l*, and the withdrawal was postponed. (See pages 30, 32, and 49 of Appendix II)

The immediate cause of the establishment of the Reserve Treasuries was the incident of 1874.

### III.

#### *Alternative methods of dealing with Government balances in India.*

13 The possible changes in the method of dealing with Government balances in India seem to be as follows—

- 1 To increase, either with or without interest, the amounts placed with Presidency Banks
- 2 To place money with other Banks
- 3 To lend on security to firms and institutions other than Banks

14 The considerations bearing on these alternative methods appear to be as follows—

#### *Presidency Banks.*

Between 1899 and 1905 there was considerable discussion in India regarding the position of the Presidency Banks, arising out of the proposal for the establishment of a Central Bank, and ending with certain enlargements of the powers of the Banks made in the Presidency Banks Act of 1907. In the course of the discussion the suggestion was made (but not supported by the Government of India) that the Government should do more than it was then in the habit of doing (and than was contemplated in Lord George Hamilton's Despatch quoted on page 2) to place money at the disposal of the banks in the busy season. So far as such action might lead to a reduction of the rate of discount, especially in the busy season when it seldom fails (see Statement I. of Appendix II, page 86) to reach 7 per cent at Calcutta and Bombay, its advantages are obvious.

15. But there are important considerations to be borne in mind on the other side—

- (1) Although the total Government balances from 1909 have been in excess of its immediate requirements, this has been due to exceptional causes which have almost passed away. Ordinarily the total balances do not exceed except perhaps for short periods, what the Government needs, as is shown by the figures in Statement B, pages 74-5. Assistance given to trade in the manner suggested would therefore be liable to be spasmodic, and the withdrawal of money when needed by the Government might cause general inconvenience and disorganisation. I believe that the Government of India have generally attached much importance to this consideration. In a letter to the Secretary of State (Lord George Hamilton), dated 18th January 1900, they said “Regarding the general danger involved in the financing of trade by the Government, we have before us the words of Lord Salisbury's Despatch of 6th May 1875, ‘Capital supplied by Government, and not representing the savings of the community, is a resource

“ on whose permanence no reliance can be placed, and which therefore tends  
 “ to lead trade into dangerous commitments’ The warning conveyed in  
 “ those words still holds good The Presidency Banks have  
 “ excellent reserves, it may readily be admitted But those reserves could  
 “ not, in the peculiar circumstances of India, be suddenly converted into  
 “ cash, and it seems therefore undesirable that the account of one depositor,  
 “ and that one a Government exposed, as the Government of India is, in a  
 “ most unusual degree, to sudden calls and emergencies, should occupy a  
 “ position of such dangerous importance To look to no graver contingency,  
 “ it is clear that a sudden call by Government for its money would influence  
 “ discount rates in a way that would seriously hamper trade” I gather that  
 the present opinion of the Government of India is not substantially different  
 from that which was held in 1900 On 18th September 1911 Sir G Fleetwood  
 Wilson, Member of the Governor-General’s Council in charge of the Finance  
 Department, was asked in the Legislative Council “ whether Government  
 “ will lend to the money markets in  
 “ India against the deposit of securities  
 “ of approved character when their  
 “ Treasury balances are high,” and  
 replied, “ The Government of India  
 “ leave considerable sums out of their  
 “ Indian cash balances on deposit with  
 “ the Presidency Banks They do not  
 “ consider it advisable to make a practice of lending to the money markets  
 “ in India in any other manner or to any larger extent”

\* It will be seen from column 2 of State-  
 ment C (showing Money held in the three  
 Reserve Treasuries), page 76, that if during  
 1912-13 the Government of India had  
 wished to place larger deposits from their  
 Treasury balances with the Presidency  
 Banks, they would not have been prevented  
 by lack of means at that time

The objection against largely increased deposits with the Presidency  
 Banks from so uncertain a source as the Treasury Balances seems to me  
 very strong, and as much so in the interest of trade as in that of the  
 Government, since it would be most undesirable that such deposits, being  
 made mainly to help trade (unlike the loans from India Office balances,  
 which are made merely to earn interest), should be liable to be suddenly  
 withdrawn whenever the Government was pressed for money

I should add, however, that this particular objection would have practically  
 no force against any scheme for depositing additional money with the Presi-  
 dency Banks (at interest and against security), from the Reserve of the Paper  
 Currency Department A proposal on these lines (except that nothing specific  
 was said about security), was placed before the Government of India by  
 the Bank of Bengal in a letter dated 2nd December 1899 † The following  
 passage is taken from the Bank’s letter “ The suggestion which my  
 “ Directors would make is that when the Bank rate rises to a height that  
 “ indicates undue pressure, the Presidency Banks may be able to rely on  
 “ procuring loans through the Comptroller-General either from the Reserve  
 “ Treasury, or failing this, from the Paper Currency Reserve, at the current  
 “ rates for demand loans on Government paper, rising and falling therewith  
 “ In submitting this suggestion my Directors desire me to state that it is  
 “ made with the sole object of ensuring a steady supply of loanable capital  
 “ at moderate rates These loans would yield profit to Government, and  
 “ benefit all who are interested in a steady money market, while the Bank  
 “ would undertake, without profit to itself, the risk and labour involved  
 “ My Directors would also submit that the Paper Currency Reserve is the  
 “ most suitable fund to devote to this purpose, not only because it is large  
 “ and steady, and, as experience has shown, would have been found ample  
 “ from first to last to have relieved each monetary pressure from  
 “ which India has suffered, but because it is to the Paper Currency  
 “ that other nations look for assistance at times of monetary strain, and  
 “ if effect is given to the proposal now made, the elasticity of the central  
 “ banking resources, of which the Indian money markets were deprived by  
 “ the transfer of the Paper Currency to Government will be restored”  
 The proposal of the Bank of Bengal was supported by the Bank of Madras ‡  
 but strongly opposed by Mr Dawkins, in a speech in the Legislative Council  
 on 5th January 1900 § and by the Government of India in a Despatch to the

† Printed on pages 365 to 369 of “ Papers relating to the Proposed Establishment of a  
 Central Bank in India (reprinted from the *Gazette of India and Supplement*, dated the 12th  
 October 1901),” Simla, 1901

‡ *Ibid* page 416

§ *Ibid* page 394

Secretary of State dated 18th January 1900, from which the following sentences\* are taken —“ An alternative measure suggested by the Bank of Bengal is that, when the Bank rate rises to a height that indicates undue pressure, loans should be made from the coin reserve of the Paper Currency Department. This is a suggestion which is open to fatal objections. Our duty, as we conceive it, is to maintain that proportion of coin in our total currency reserve which is necessary for ensuring convertibility. If the proportion were large enough to admit of loans being made therefrom, then it would be unnecessarily large, and the general taxpayer, not any particular section of the community like the Banks, should benefit by the substitution of securities for superfluous coin.” These objections seem to me very unconvincing. The coin in the Paper Currency Reserve has long been much in excess of what is needed to ensure convertibility, and quite large enough to enable loans to be granted to the Presidency Banks without inconvenience to the Government, if the strength of the Banks is held to be sufficient to justify such loans (a point dealt with below), the coin reserve can be maintained without difficulty at the level required to make them possible, and the loans besides being beneficial in a way in which an addition to the permanent securities held in the Reserve would not be, would probably yield interest to the same, or nearly the same, amount *per annum*.

(2) The Government deposits bear what might, perhaps, be regarded as a high proportion to the Capital and Reserve and the Cash of the Presidency Banks. Statement D (pages 78-80) summarises the position of the three Presidency Banks as shown in the last weekly statements published for each quarter in 1890, 1891, 1892, 1910, 1911, and 1912. The percentages of Government deposits (a) to Capital and Reserve and (b) to Cash at the dates mentioned in the last three years were as follows —

	Bank of Bengal		Bank of Madras		Bank of Bombay	
	Percentage of Government Deposits to—		Percentage of Government Deposits to—		Percentage of Government Deposits to—	
	Capital and Reserve	Cash	Capital and Reserve	Cash	Capital and Reserve	Cash
1910						
March - - -	51 9	37 9	54 3	44 6	91 6	56 3
June - - -	50 3	20 5	58 5	24 7	60 9	28
September - -	51 7	23 8	53 7	20	54 6	17 5
December - - -	47	34 5	67 6	39 5	74 2	34 8
1911						
March - - -	54 9	36 3	68 9	121 0	84 9	46 5
June - - -	54 4	26 1	71	33 9	64 9	28 8
September - -	51 2	28 6	57 1	33 1	61 1	18 5
December - - -	60 4	28 9	53 5	35 5	52 4	23 3
1912						
March - - -	50 5	29	93 8	57	83	35 8
June - - -	52 6	26 5	52 4	32 4	75 7	30 1
September - -	47 5	21 4	48 3	30 8	67 9	27 4
December - - -	51 7	29 1	52 4	38 6	51	31 3

In connection with these figures it is necessary to bear in mind that the Banks have not, like most of the great English Banks, uncalled capital. This is a point against a large increase in the amount of Government money deposited with the Banks. On the other hand it should be mentioned that the percentages shown above, high though they are, are generally lower (as will be seen from Statement D of Appendix II, pages 78-80) than those which prevailed in 1890, 1891, and 1892.

*Deposits or Loans with other Banks.*

16 The only other Banks in India which can be compared, in respect of resources and volume of business, with the Presidency Banks are certain

\* *Ibid* page 399.

Banks known as the Exchange Banks, which play the chief part in financing India's foreign trade. They are as follows—Chartered Bank of India Australia and China, Delhi and London Bank, Hong Kong and Shanghai Banking Corporation, National Bank of India, Mercantile Bank of India, Eastern Bank, Comptoir National d'Escompte de Paris, Yokohama Specie Bank, Deutsch-Asiatische Bank, International Banking Corporation, and Russo-Asiatic Bank. The "Statistics of British India" contain the following information regarding their position in 1910—

	£
Capital, Reserve and Rest	22,600,000
Deposits in India	16,200,000
Cash in India	2,860,000

17 The general strength of the Exchange Banks may not unreasonably be held to afford considerable support to the view that Government money might safely be entrusted to them. On the other hand—

- (1) They are all Banks with Head Offices out of India
- (2) The cash that they hold in India is, as shown above, of very limited amount and represents only a small fraction of their liabilities to private depositors in India
- (3) There is no reason to believe that the Exchange Banks desire an extension of the practice of placing Government money with Banks. The Government of India recently informed the Secretary of State of a discussion on the subject between the Calcutta representatives of certain Exchange Banks, and the Member of the Governor-General's Council in charge of the Finance Department. The impression formed by the latter was that the suggested change of practice, at any rate if introduced on a large scale, would not be welcomed by the Banks.

18 The other Banks about which statistics are available are nineteen joint stock banks regarding which information up to 1910 is given in the "Statistics of British India". The chief information for the year mentioned is as follows—

	£
Capital	1,837,000
Reserve and Rest	670,000
Deposits	17,100,000
Cash	1,868,000

One of the nineteen Banks has gone into liquidation since 1910.

It seems obvious that not much could be done by way of placing Government balances with these Banks and I am not aware that any proposal to this effect has been put forward by any responsible body.

#### *Loans to Firms and Institutions other than Banks*

19 It will be seen from Lord Salisbury's and Lord George Hamilton's Despatches referred to at the beginning of Section II that the grant of short term loans at interest and on security, otherwise than to Banks, has long been within the powers of the Government of India. So far as I am aware, such loans have never been granted. The only occasion on which I can trace that the matter has been considered by the Secretary of State and the Government of India, except in the Despatches mentioned, was when, as stated on page 4 of this Memorandum, a question on the subject was asked in the Legislative Council of India, on 18th September 1911.

20 It is obvious that, unless a general practice of granting loans is to be instituted, exceptional loans to particular firms would be open to serious objection. The difficulties in the way of establishing a general practice are briefly summarised as follows in the "Memorandum on India Office Balances" presented to Parliament in 1913 (Command Paper 6619)—“(1) The loans would probably be secured in most cases on rupee paper and if, through the default of borrowers, large quantities had to be sold in any year, the annual Government loan in India, which is effected by the issue

" of rupee paper, might be injured, (2) In the comparatively small and " sensitive Indian money markets, the rapid calling in of large loans to meet " an emergency might be difficult and dangerous ' The first difficulty would be lessened if loans were granted against Bills drawn and accepted by firms of high standing

#### IV.

##### *India Office Balances*

21 The management of the balances of the India Office is described in the following extract from the "Memorandum on India Office Balances" just referred to —

" A considerable part of the disbursements in each year consists of very large payments which are made within very short periods This is illustrated by the following figures showing the total payments in certain periods in 1911-12 —

" 1st to 5th April 1911, 3,624,304*l* (including 2,084,897*l* for annuities and interest, and 1,333,333*l* for Paper Currency Reserve investment), 1st to 5th July 1911, 3,815,710*l* (including 2,694,367*l* for annuities and interest, 437,757*l* for Gold Standard Reserve investment, and 301,800*l* for discharge of debt), 1st to 5th October, 2,462,000*l* (including 2,114,605*l* for annuities and interest), 1st to 5th January 1912, 3,100,857*l* (including 2,685,769*l* for annuities and interest, and 75,000*l* for discharge of debt)

" There are also other large payments, such as those for railway stores, which have to be made at very short notice, but at dates that cannot be exactly foreseen, since they depend on the punctuality or otherwise of contractors

" The money from which these payments are made is not received just at the moment at which it is needed The greater part of it is derived from the sales of Council bills and telegraphic transfers which, though in unfavourable years they are liable to cease for considerable periods, take place as a rule every week Sometimes, but in many years not more than once in the year, large sums are received in a short time as the proceeds of a loan or loans

" It is thus necessary, as a rule, in preparation for the periods of heavy payments, to accumulate the weekly receipts so as to have them in hand or at call for use when the money is required

" The whole of the working balance thus required might be allowed to remain at the credit of the Secretary of State at the Bank of England, in which case the revenues of India would receive no interest on it, but the practice followed since 1838 has been to keep a certain part of the balance at the Bank and to lend the remainder at interest

" The usual method is to lend to certain banks, discount houses, and stockbrokers of high standing, whose names are included in an approved list, now containing 62 names The list is revised periodically, and applications for admission are carefully considered with reference to the standing and resources of the applicants and the nature of their business. Loans to borrowers on the approved list are granted as a rule for periods from three to five weeks, occasionally for six weeks, so that the whole balance could, if needed, be called in within six weeks

" The Accountant-General informs the Secretary of State's broker daily of the amount of loans that may be renewed, the amount of new loans that may be placed, or the amount that must be called He also furnishes the dates for the maturity of the renewals and new loans, so that money may be available to meet requirements The broker is responsible for obtaining the best possible rate of interest The amount of a loan is not paid out from the Secretary of State's account at the Bank of England until the security has been lodged at the Bank. The securities which the broker is authorised to accept are as follows — Exchequer bills and bonds, Treasury bills, Parliamentary stocks and annuities of the United Kingdom, securities on which the interest is guaranteed by Parliament; India stock, debentures, bonds,

and bills, Rupee paper, Guaranteed debenture scrip (fully paid), or bonds of Indian railway companies, London County stock and bills, Metropolitan consolidated stock, Corporation of London debentures, Metropolitan Water Board bills, and "B" stock. The particulars of each loan transaction are submitted each week to the Finance Committee for approval, and each month to the Auditor of the Accounts of the Secretary of State in Council.\*†

"In 1909 it was found that the borrowers on the approved list could not take the full amount of the balances available for loan, and, in order to obtain employment for the funds, the broker was instructed, as a temporary measure, to deposit the excess amount from time to time with leading London banks, usually for periods of between one and three months. The procedure adopted was as follows—The Accountant-General informed the Secretary of State's broker of the amounts available, and the periods for which he desired to employ them. After consultation with the Chairman of the Finance Committee the broker negotiated with the various banks so as to obtain the best possible rates of interest, which were governed by the rates current in the discount market. He then reported to the Accountant-General, and the particulars of all deposits were submitted to the Finance Committee and the Auditor. In November 1911, it was decided that, so long as it should be found necessary to continue the practice of depositing with banks, the amount on deposit at any one bank should be limited as a general rule to 1,000,000*l.*, and the number of banks at which deposits were made was increased to seven. The balance has now been so much reduced that it is no longer necessary to deposit with banks.

"The rates obtainable on the India Office balances necessarily depend on those current in the London Money Market for short loans and deposits, and these are sometimes higher and sometimes lower than those at which permanent loans, bonds, or bills for a year can be issued. In 1909-10, 1910-11, and 1911-12 the rates paid by the India Office on issues of India stock, bonds, and bills have varied between 3*l.* 12*s.* 11*d.* and 2*l.* 3*s.* 11*d.* per cent. During 1911-12 the average rate of interest received by the India Office on loans to approved borrowers was 2.60 per cent and on deposits 2.43 per cent. Information to this effect was given in the Viceroy's Legislative Council on 22nd March 1912, and the difference between the rates received and paid respectively attracted the notice of Colonel Yate, M.P., Mr Stewart, M.P., and Mr Thorne, M.P., the latter of whom asked (6th November 1912) 'whether there is any truth in the statement that the India Office is in the habit of lending money at 2½ per cent and borrowing it 'back at 3½ per cent'. The explanation is, of course, that the India Office borrows only when it appears necessary to do so in order to meet capital expenditure or (very exceptionally) to make good, temporarily, a deficit due to famine or other causes of a similar exceptional nature, and pays the rate of interest necessitated by market conditions on the loans, mostly in the form of permanent stock, which it issues, whereas it lends for short periods to prevent its balance from lying idle and gets on such loans the best rate that is at the time possible in the condition of the money market, having regard to the fact that the security required is of a very high class and that loans are granted only to firms of very high standing. The alternative to lending for short periods at rates which are sometimes below those paid on the stocks and other securities that it is necessary to issue would be to discontinue entirely or occasionally the practice of lending, which brought in to Indian revenues 2,193,879*l.* in the last 20 years."

## V.

### *Amount of total balances (India and England combined)*

22 The amount of closing balance in each year considered by the Government of India to be necessary for safety in India is 12,500,000*l.* The amount required in England in ordinary circumstances is about

\* The list of securities has been slightly enlarged since the Memorandum was written. Mr Badock will give information on these points. (See Appendix XI, page 314.)

† The weekly lists are now submitted to the Secretary of State and the Council.

4,000,000*l.*, or somewhat more, as explained in Sections V and IX of the "Memorandum on India Office Balances"<sup>†</sup> The Budget of each year, which (except so far as concerns fixed charges and loan transactions in England) is based on estimates framed by the Government of India, is drawn up as a rule so as to provide for a closing balance not differing greatly from the total of these amounts, *viz.*, in round figures, 17,000,000*l.*

23 It will be seen from Statement B of Appendix II, (page 75), that there are two recent years in which the total balance provided for in the Budget has appreciably exceeded this amount, *viz.*, 1911-12 (21,221,446*l.*) and 1912-13 (19,589,871*l.*) The explanation of these amounts is as follows —

1911-12 As shown in footnote 5 to Statement B, the estimated balance on 31st March 1912 included 1,903,000*l.*, being part of the "opium surplus" of 1910-11 specially held towards providing for the discharge of temporary debt after 1911-12 This sum represents a portion of the exceptional receipts from opium in 1910-11 which, being in the nature of a windfall, it was decided to set aside for special purposes Two-thirds (amounting to 1,903,000*l.*) of the total exceptional receipts was allocated to the discharge

of temporary debt\* For the reasons stated in the Secretary of State's Despatch of 23rd December 1910, No 147, of which I hand in a copy (see page 65), it was decided to apply the allocated amount primarily to the discharge of the formidable obligations in the shape of bonds maturing at fixed dates which had to be dealt with after 31st March 1912 Failing this, there would have been a danger that an appreciable part of the limited amount that can be borrowed in each year would have had to be devoted to the discharge of bonds in 1912-13 and subsequent years, instead of being used for capital outlay on railways and irrigation works The importance of avoiding this will appear from what is said in Section VII below For reasons explained on page 10 of the "Memorandum on India Office Balances,"<sup>†</sup> the Budget for 1911-12 was prepared so as to provide for a somewhat high closing balance even apart from the 1,903,000*l.* mentioned

1912-13 The comparatively high closing balance provided for in the estimates for 1912-13 was due to the same cause as has been just explained

24 The actual closing balances at the end of 1908-09, 1909-10, 1910-11, 1911-12, and 1912-13 have considerably exceeded both the standard mentioned at the beginning of this section and the Budget estimates Part of the excess in 1908-09, 1909-10, 1910-11, and 1911-12 was due to temporary and exceptional causes, explained in the footnotes to Statement B, *viz.*, the presence in the balances of (a) the specially hypothecated portion of the "opium surplus" of 1910-11 and a similar receipt realised in 1911-12, and (b) receipts on account of loans for capital outlay issued, in view of market conditions, shortly before the commencement of the financial year in which the outlay was to be incurred Allowance is made for those causes in the final columns of Statement B, headed "Adjusted Actuals" (pages 74-5), from which it will be seen that, apart from the special causes, there was an excess over the Budget Estimate, or the normal standard, or both, in 1909-10, 1910-11, 1911-12, and 1912-13 The factors contributing to these excesses are shown in Statement A (dealing with the transactions of the Government of India as a whole), and Statement E (dealing with Revenue proper and Expenditure chargeable against Revenue) see Appendix II, pages 67-73 and page 81 From Statement E it will be observed that the Revenue surpluses (excluding Provincial Adjustments) exceeded the Budget Estimates in 1909-10, 1910-11, 1911-12, and 1912-13 by sums amounting to 20,967,184*l.* in the four years On the facts shown in Statements A and E the following general remarks may be made —

- (1) The Budget estimates of revenue represent the best forecast that the Government of India can frame in each March of the probable receipts and expenditure chargeable to revenue under the various heads during the coming financial year. Such forecasts must always be uncertain, since the rainfall from June to September is the deciding factor in the financial results of each year. A very good monsoon may swell the receipts from Railways, Customs, and

<sup>†</sup> Command Paper 6619.

Excise to a figure for which no prudent Government could estimate; while a bad monsoon may depress to a very low level the receipts from the sources mentioned and from Land Revenue, and may also necessitate very large expenditure on famine relief. The uncertainty of Indian estimates of revenue, due to the incalculability of the monsoon, which is perhaps sufficiently illustrated by Statement E, may be further illustrated by the experience of 1907-08 and 1908-09, in which years (see Statement A, pages 67-8), the net results of the Revenue transactions (excluding adjustments between the Government of India and Provincial Governments) were worse than the Budget Estimate by 1,046,600*l* and 4,451,400*l* respectively in consequence of unfavourable seasons. India came near to having a similar experience in 1911, in which year, as was said by Sir G. Fleetwood Wilson in his speech introducing the Financial Statement for 1912-13, "the half of India was on the verge of a drought for which we might have had to go back 34 years for a parallel." It was a striking lesson of how "narrow is the line in India between plenty and want" (H.C. 144 of 1912, page 1).

- (2) An additional element of uncertainty was brought into the Indian estimates for 1910-11, 1911-12, and 1912-13 by the position of the opium trade. In 1908 an agreement was made with the Chinese Government for the gradual reduction of the exports of Indian opium to China and their cessation in 1917. Owing, no doubt, to this agreement, a sensational rise in the price of opium took place at the end of 1909-10 and continued with variations until 1912. But its continuance, and indeed the continued existence of the trade with China, could never be counted on from one season to another. The agreement of 1908 was modified by an agreement of 1911 providing for the termination of the trade in certain eventualities before 1917. In 1912 strong representations in favour of the immediate stoppage of the sales of Indian opium for China were submitted to the Government of India by merchants engaged in the trade. In 1913 measures were taken which, for the time at least, have entirely stopped the trade with China. The financial history of India during the last three years has been coloured and almost dominated by the uncertainty regarding the opium revenue, of which the importance is shown by the following figures (taken from Statement E, page 81) of net opium receipts—

	Budget Estimate	Actual (or Revised Estimate)
	£	£
1910-11 -	3,550,100	6,271,531 (Actual)
1911-12 -	3,093,300	5,228,312 (Actual)
1912-13 -	2,930,700	4,503,500 (Revised Estimates March 1913)
1913-14 -	306,000	

- (3) The underspending in several years (as shown in Statement A under '9 Capital Outlay on Railways, Irrigation Works, and Delhi,' pages 67-73) of the amounts provided for capital outlay has occurred to a considerable extent in the expenditure by railway companies, over whose action in regard to the placing of contracts for stores the Secretary of State and the Government of India have only a limited control. Measures have been taken with the object of doing what is possible to enable railway companies to spend fully the amounts placed at their disposal in each year for capital purposes.

25 It is shown in Statement B (pages 74-5) that the excess of the closing balances over the normal was held in 1909-10, 1910-11, and 1911-12 mainly in England, and in 1912-13 partly in England but mainly in India. In order to see the causes which led to its being held in England in three of the years, it is necessary to consider the method by which Government balances are transferred from India to England.



## VI.

*Method of transferring Balances from India to England, and India Office Balances*

26 Practically the whole of the Revenue of India is received in India. Statement A (pages 67-73) shows that about 25 per cent of the disbursements of the Government of India are made in England. A comparatively small portion of the disbursements in England is met from the proceeds of loans raised in England. Practically the whole of the remainder, consisting mainly of expenditure chargeable against the Revenue of each year, is met by means of remittances from India.

27 These remittances are effected by one or other of the following methods —

- (1) The sale by the Secretary of State in London of Bills of Exchange (commonly known as Council Bills) and Telegraphic Transfers to be met by the Government of India in India. Details regarding the method of sale will be given by Mr Newmarch (*see* Appendix VII). It is perhaps enough to note here that since 1899 the minimum price of bills has been 1s 3½d, and since 1904 there has been in force an undertaking to sell bills without limit of amount at 1s 4½d. These two prices are rough and conventional equivalents of the "gold exporting point" and "gold importing point".

Information regarding the manner in which the amount of the sales is regulated is given below.

- (2) Occasionally, when it has seemed improbable that the Secretary of State would be able to obtain by the sale of Bills and Transfers the amount estimated to be required from that source, gold held by the Government of India in India has been consigned to London. As the metallic money held by the Government of India is mostly in the Paper Currency Reserve against notes held in the Government treasuries, the Government of India, when shipping gold to London to be used for the general purposes of the Secretary of State, must usually take the gold from the Paper Currency Reserve and cancel a corresponding amount of notes held in their general treasuries or must transfer from their treasuries a corresponding amount in rupees to the Currency Reserve.
- (3) The conditions in recent years have enabled transfers of gold from the Paper Currency Reserve, when required to supplement the proceeds of Bills and Transfers, to be effected in a more convenient and economical manner than in (2). Part of the Paper Currency Reserve is held in gold in London (Appendix II, page 82) (taken from the proceeds of the sale of Council Bills\*), and the Secretary of State can accordingly withdraw gold from it, when required, against either the cancellation of notes held in the Treasuries of the Government of India or the transfer of rupees from those Treasuries to the Paper Currency Reserve in India.

## VII.

*Method by which amount of Sales of Council Bills and Transfers is regulated*

28 The Indian Currency Committee of 1898-99, over which Sir Henry Fowler presided, said at the end of their Report (paragraph 70) "It is eminently desirable that, in order to assist towards the speedy establishment of an effective gold standard in India, the Government of India should restrict the growth of their gold obligations." The particular reason mentioned by the Committee in support of their recommendation has

much less force now, since a gold standard has been effectively established, than it had in 1899, and the extent to which the recommendation can be carried out is limited by the fact that the amount that can be obtained in India towards providing for the capital outlay on railways and irrigation works is in normal circumstances much less than the total outlay generally admitted to be desirable, so that considerable loans must be issued in London. But, having regard to the general advantage of restricting, as far as may be, the growth of a country's external debt and to the practical difficulties attending the issue of large annual loans in London on behalf of the Government of India, the Secretary of State endeavours to obtain from funds provided in India as large a proportion as practicable of the money required for each year for expenditure in England on account of India.

29 It is accordingly the practice to estimate in the Budget of each year for the remittance to England (to be used towards defraying the expenditure of the India Office both on revenue and capital account) of as large an amount as the Government of India estimate that they will be able to devote to meeting Council Bills and Transfers sold by the Secretary of State. The estimate depends, of course, on the resources held by the Government of India in India at the beginning of the year and their forecast of their receipts and their requirements during the year, the requirements being for expenditure on revenue and capital account, for loans to be granted to agriculturists and others, and for the maintenance of a working balance. All these estimates are necessarily framed by the Government of India.

30 The actual sales in a year often differ considerably from the Budget estimate, (see Statements A and F of Appendix II, pages 67-73 and page 82). In seven out of the twenty years from 1893-94 to 1912-13, the trade demand for bills and transfers has not been sufficient to enable the full estimated amount to be sold. In the remaining thirteen years the sales have exceeded the estimate because the practice is to sell freely in years of heavy trade demand, subject to the consideration, on which something will be said at the end of this Memorandum, that the sales shall not be on such a scale as to prevent the inflow of gold to India to the extent to which it seems likely that there will be a demand for it on the part of the public. The practice of selling freely is of long standing. The reasons in favour of it are the following, of which the fourth is, in my opinion, by far the most important —

- (1) The opportunity of purchasing bills and telegraphic transfers in India, as an alternative to consigning gold for the discharge of the trade balance due to India is a great convenience to trade, more especially in times of pressure. This is illustrated by the fact quoted on page 4 of the "Memorandum on India Office Balances (Cd 6619)," that in 16 days in January—February 1912, telegraphic transfers were sold for 3,500,000*l.*, with the result of transferring this amount immediately from Government treasuries to mercantile hands. I believe that the present practice is generally appreciated by the various mercantile communities in India.
- (2) If the sale of Council Bills were restricted more closely than at present, larger shipments of gold to India to an amount equivalent to the reduction of sales of Council Bills would presumably be made by banks and merchants for discharging the trade balance due to India, unless, as is possible, the balance of Indian trade were adversely affected by the change of system. The greater part of such gold would be tendered by importers to be exchanged by the Government, either direct for rupees or for notes which would be, in due course, cashed in rupees, and would thus find its way into the Paper Currency Reserve in which the greater part of the metallic money belonging to the Government of India is kept. In due course the proportion of rupees to gold in the Paper Currency Reserve would decrease, the stock of rupees would fall to, or below, the limit of safety, and purchases of silver for the coinage of new rupees would be required. Owing to the restriction of the sale of Council Bills, the Secretary of State

would probably not be able, as he usually (though not invariably\*) is, under existing conditions, to buy the silver with money received at the India Office in payment for such Bills, and he would be compelled instead to call on the Government of India to ship gold to him, a course obviously uneconomical since it involves the payment by the Government of freight and insurance on the exportation from India of gold on which bankers and merchants have paid similar charges at the time of importation.

Similarly, a close restriction of the sale of Council Bills would probably

\* 6,000,000*l* of gold was sent home by the Government of India between October 1900 and July 1901, 4,261,000*l* between July 1903 and February 1904, and 6,600,000*l* between August 1904 and July 1905, mainly to meet payments for silver and to the Gold Standard Reserve. On these and similar occasions India was sometimes exporting and importing gold simultaneously. Since the last mentioned date, the shipments by the Government of India have been —5,000,000*l* to establish the English portion of the Paper Currency Reserve, and 2,623,000*l* light gold coin sent at various dates in 1908-9 and 1912-13.

necessitate shipments of gold by the Government of India, usually but not invariably\* avoided under existing conditions, to provide for payments to the Gold Standard Reserve and investments on behalf of the Paper Currency Reserve in England.

For the reasons given in Section VIII C below I omit consideration of the possibility of further shipments of gold being required to assist the Secretary of State in meeting his disbursements for General Purposes.

3. The larger shipments of gold to India, consequent on a reduction of the sales of Council Bills as explained in (2), would sometimes be on a very considerable scale. In the Table on page 15, the reductions of the sale of Council Bills for General Purposes that would have occurred in the period 1909-10 to 1913-14 under three possible alternative methods of regulating the sales are given at 19,529,519*l*, 14,518,519*l*, 13,414,522*l* respectively. In addition there were sales of 8,690,000*l* of which the proceeds were appropriated to the Gold Standard Reserve and of 1,333,300*l* of which the proceeds were used to buy securities for the Paper Currency Reserve\* (see Statement F of Appendix II, page 82). If the sales for General Purposes had been reduced to the extent shown, and if the sales for the Gold Standard Reserve and Paper Currency Reserve had not taken place, the extra shipments of gold to India, to adjust the balance of trade would presumably have been, under the three alternative methods, 29,552,819*l*, 24,541,819*l*, and 23,437,822*l* respectively, on the assumption that the balance of trade would not have been affected by the change of practice. The shipments would presumably have been made in each year mainly in the busy months when the demand for trade remittance to India is strongest. There can be no reasonable doubt that the temporary or permanent withdrawal, effected at such times, of amounts of gold of this magnitude would injure Indian interests in two ways, viz —by hampering the Secretary of State's loan operations in London (*e.g.*, the issue of Indian securities and the renewal of maturing obligations such as the debenture bonds of guaranteed Indian Railway Companies) and by causing a rise in discount rates in London (and probably all over the world) which could not fail to injure India's trade, especially her foreign trade.
- (4) When remittances additional to those estimated for in the Budget are made by the Government of India to the Secretary of State, the proceeds are used, so far as not required for meeting requirements not provided for in the Budget, either towards reducing the amount to be borrowed in England for capital outlay or towards paying off debt. It should be mentioned that, since excess receipts from Bills and Transfers can never be counted on until late in the financial year, when the result of the monsoon and the trade and agricultural position are known, whereas the favourable opportunity

\* The further amounts appropriated to the Paper Currency Reserve, as shown in column 5 of Statement F (page 82), were set aside in gold, and thus had the same effect on the London money market as if they had been shipped to India. They are, therefore, omitted from consideration in the present context.

for carrying out loan transactions usually occurs, if at all, early in the financial year, it follows that the proceeds of excess sales of Bills and Transfers cannot ordinarily be used for the avoidance or repayment of debt until the year after that in which the excess sales have taken place. In this respect the practice of the India Office resembles that of the Treasury, which applies surpluses to the reduction of debt in the year after they have been realised.

The extent to which the proceeds of extra sales of Bills and Transfers were used in 1910-11, 1911-12, and 1912-13 to discharge debt and to restrict the amount of new debt created is shown in some figures on page 12 of the "Memorandum on India Office Balances" recently presented to Parliament [Cd 6619]. The effects in this respect of existing practice are more fully shown in the following summary compiled from Table A, pages 69-73 —

CAPITAL RECEIPTS AND DISBURSEMENTS, 1909-10 TO 1913-14.  
*Capital Receipts (Loans issued by Government, Capital paid to the Government by Railway Companies, and Unfunded Debt, i.e., Deposits of Savings Banks and Service Funds)*

	India	England	Total
	£	£	£
1909-10 (Raised in Advance in 1908-09)	—	4,475,000	4,475,000
" (Raised in 1909-10)	2,571,700	5,159,000	7,730,700
1910-11 (Raised in Advance in 1909-10)	—	6,370,000	6,370,000
" (Raised in 1910-11)	2,245,700	5,309,100	7,554,800
1911-12 (Raised in Advance in 1910-11)	—	2,210,000	2,210,000
" (Raised in 1911-12)	3,198,400	2,855,100	6,053,500
1912-13	3,791,400	3,495,000	7,286,400
1913-14 (Budget Estimate)	3,657,500	3,000,000	6,657,500
Total	15,464,700	32,873,200	48,337,900

*Capital Disbursements (Capital Outlay on Railways, Irrigation Works, and Delhi, and Discharge of Debt)*

1909-10	3,920,100	5,957,100	9,877,200
1910-11	3,712,900	9,255,900	12,968,800
1911-12	4,508,100	7,898,900	12,407,000
1912-13	4,674,200	13,554,900	18,229,100
1913-14 (Budget Estimate)	6,231,000	10,594,400	16,825,400
	23,046,300	47,261,200	70,307,500
Excess of Capital Payments over Capital Receipts	7,581,600	14,388,000	21,969,600

The significant figures in this summary are those in the last line. They serve, indeed, as an epitome of the financial policy consistently pursued by the India Office in the last three years, viz., to take advantage of a period of prosperity and windfalls in India in order (1) to pay off the portion of India's external debt of which the discharge was either obligatory or very desirable, (2) to overcome, as far as possible, the difficulties in the way of the improvement of the Indian railway and irrigation systems caused by the unfavourable position of the market in London for Indian loans.

(5) Money held in England as a working balance or pending use for the reduction of debt or defraying capital expenditure earns interest, the amount so earned from 1909-10 to 1912-13 having been 1,241,173<sup>s</sup>. The deposit of balances in India at interest is rare (see page 2), and, although there are arguments of no little force for placing Government money on deposit with the Presidency Banks at certain times of the year more freely than has been customary, such deposits should, I think, for the reasons given on pages 3

	£
* 1909-10	130,070
1910-11	362,880
1911-12	376,053
1912-13	372,170
Total	1,241,173

to, 5 above, be made from the Reserve of the Paper Currency Department. If this were done, the Treasury Balances in India would still earn no interest.

### VIII.

#### *Effect of Regulating Amount of Sales of Council Bills and Transfers otherwise than as under existing Practice*

31 It seems to me desirable that the Commission should realise fully how the recent and present position of the Secretary of State and the Government of India would have been affected if, during the last few years, there had been in force any method, other than the one described above, of regulating the amount of the sales of Council Bills and applying the proceeds of sales effected in excess of the Budget Estimate. In Supplementary Note I on "Alternative Methods of Regulating Amount of Sales of Council Bills

and Transfers," I compare, as closely as the conditions allow, the actual sales of Council Bills and Transfers for General Purposes from 1909-10 to 1912-13 and the estimated sales for 1913-14, with what they would have

been if regulated by any of what seem to be the only possible alternative methods. According to the calculations in that Note the primary effect of applying in 1909-10 to 1913-14 the various possible alternative methods of regulating the sales of Council Bills would have been as shown in the following statement

Method of regulating Sales.	Reduction that would have been caused in the Secretary of State's receipts from the sale of Bills and Transfers	Portion of reduction that would have been made good by withdrawal of Gold from Paper Currency Reserve in England to pay for Silver in 1912-13	Amount that would have had to be made good in other ways
1	2	3	4=2-3
	£	£	£
1 Limiting them to the amount of the "Home Charges," i.e. the net expenditure of the India Office chargeable against Revenue (Section II of Supplementary Note I)	19,529,519	7,060,000	12,469,519
2 Basing Budget estimate on forecast of what Secretary of State can sell and Government of India can meet, and limiting sales to amount of this Estimate (Section III)	14,518,519	7,060,000	7,458,519
3 Limiting them so as not to allow the India Office Balance on 31st March of any year to exceed 4,000,000 (Section IV).	13,414,522†	3,931,200	9,483,322†

† Subject to a possible moderate reduction for the reasons given in the last paragraph of Supplementary Note I, page 25.

32 Regarding the figures in column 3 of the Table above, it is perhaps unnecessary here to do more than explain that, as I shall be able to show when giving evidence regarding the Gold Standard Reserve, the gold in the Paper Currency Reserve has been in the past, and would be in the future, a most valuable resource in a period of bad trade towards enabling the Secretary of State to pay his way and support exchange. Its dissipation in a period of abounding prosperity would be extremely unfortunate.

33 The significance of the figures in column 4 of the Table is much more serious. It is obvious that the only methods by which in any circumstances the amounts shown in that column could have been made good are as follows—

- A Reduction of India Office Balance
- B Further withdrawals of gold from the portion of the Paper Currency Reserve held in England.

- C Remittances from India by means other than the sale of Council Bills  
 D Reduction of India Office disbursements  
 E Increase of loans issued by the India Office or by Guaranteed Railway Companies under the authority of the India Office  
 34 The facts regarding the practicability or otherwise of these methods are as follows —

A *Reduction of India Office Balance*—Taking the period 1909–10 to 1913–14 as a whole, no such reduction would have been possible, since, as shown in statements A, B, and G, the estimated balance at the close of the period is about 4,000,000*l*, which is approximately the minimum compatible with safety. The fact that for a considerable time within the period the balance was higher than was required, and the extent to which this was due to divergencies between estimates prepared by the Government of India and actual results, are discussed separately in Section IX.

B. *Further withdrawals of Gold from the portion of the Paper Currency Reserve held in England*—The amounts of gold so held during the period 1909–10 to 1913–14 have been as follows —

	£
April 1909 to February 1910	- - 1,500,000
March 1910 - - - - -	- - 2,500,000
April 1910 - - - - -	- - 3,375,000
May 1910 - - - - -	- - 4,165,000
June 1910 to January 1911 -	- - 4,245,000
February 1911 to January 1912	- - 5,045,000
February to October 1912 -	- - 5,700,000
November 1912 to February 1913	- - 7,300,000
March 1913 - - - - -	- - 6,100,000 (Reduction due to transfer of 1,200,000 <i>l</i> to Gold Standard Reserve)

It is assumed in column 3 of the Table on page 15, if any of the possible alternative methods of regulating sales had been in force, the following amounts would have been taken in gold from the portion of the Paper Currency Reserve held in England —

	£
Under first and second alternative methods	7,060,000
Under third alternative method	- - 3,931,000

It is obvious that, under the first and second methods, there would have been no possibility of taking any further appreciable amount from the same source towards making good the deficiency shown in column 4 of the Table. Under the third method, 3,369,000*l* could have been so taken between November 1912 and February 1913 or 2,169,000*l* in March 1913. For the reasons given in the remarks immediately after the Table, this step would have been exceedingly unfortunate.

C. *Remittances from India otherwise than by the sale of Council Bills*—The only practical alternative method of remittance would have been the shipment of gold to London by the Government of India for the General Purposes of the Secretary of State. As stated in Section VII (2), such shipments have been made in the past mainly for specific purposes such as payments for silver or for securities for the Gold Standard Reserve when it was impracticable to effect by the sale of Council Bills the remittances required for such payments. I believe that they would not have been made in the period from 1909–10 to 1913–14 for the General Purposes of the Secretary of State if in that period the sale of Council Bills had been deliberately restricted in the manner assumed in Supplementary Note I (page 22). My reasons are as follows—If the sale of Council Bills had been restricted, it would presumably have been done in accordance with the view that some specific limit should be imposed on the amount to be remitted by the Government of India to London in any given period. Unwise as such a policy would have been—since it would have involved locking up in Indian treasuries money that

under the existing practice has been and is being used in London to pay for railway material for India, to reduce India's foreign debt, and for similar purposes—it is just conceivable that it would have been adopted. But it is past belief that the Government that adopted it would have neutralised it by substituting for remittances by the convenient and economical method of selling Council Bills and Transfers, an equivalent amount of remittances by the shipment of gold, a method which, as explained in paragraphs (1) and (3) on pages 12 and 13 would have been adopted, if at all, as part of a system injurious to Indian trade and prejudicial to her interests as a borrower in London, and would also have involved loss (in the shape of payments for freight and insurance, loss of premium on Council Bills, and loss of in-

\* See Supplementary Note II (page 26) on "Cost of Reducing Sales of Council Bills and substituting Remittances by Shipments of Gold" interest on balances) which I have calculated at 618,800*l.*, 694,681*l.*, or 1,069,120*l.*, according to the method

adopted of restricting the sales of Council Bills. I have not overlooked the fact that—since Council Bills and Transfers, if sold at all, must be sold when the public wishes to buy them, whereas shipments of gold can be made at the time chosen by the Government—the change of method would have, to a considerable extent, enabled the large temporary increase in the India Office balance, dealt with in Section IX below, to be avoided. But I believe that, for the reasons given in Section IX, that increase has caused no disadvantage of any kind to India. And I am quite sure that (having regard to its very exceptional causes and the extreme improbability of their recurrence) it would have been unwise to make, for the purpose of avoiding it, a drastic change in financial practice involving serious immediate risk and loss to trade and to the Government and the possibility of similar risk and loss hereafter.

- D. *Reduction of India Office Disbursements*—The expenditure chargeable to revenue consists almost entirely of fixed charges (interest, pensions, leave allowances, War Office charges), and of payments for stores required by the Government of India. It could not be reduced. The capital outlay on railways and irrigation works (the latter of small amount), and the payments for discharge of debt, could have been reduced. The consequences are discussed below.
- E. *Increase of Loans*—It may be assumed that up to a certain point an increase would have been possible. The consequences are discussed below.

35 I believe that, if a shortage of the Secretary of State's receipts from Council Bills to the extent shown in column 4 of the Table above had occurred from 1909–10 to 1913–14 owing to the adoption of closer restrictions on the sales, the course taken to make both ends meet would have been mainly, if not entirely, (a) to reduce the Capital Outlay on Railways, (b) to reduce the expenditure on the discharge of temporary debt, (c) to increase, or to attempt to increase, to some extent the issue of permanent loans. There can be no doubt that each of these measures would have had serious effects, not merely or mainly of a financial nature in the narrower sense, on the position of India both immediately and in the future. Those effects may be briefly indicated as follows—

(a) The desirability of developing the Indian railway system as rapidly as (or more rapidly than) has been possible in the last few years has been recognised by the Secretary of State and the Government of India. Frequent representations have been made as to the inconvenience and loss caused to producers and merchants by the difficulty of coping with the traffic that offers. Moreover there are many districts, not now served by railways, to which railway communication would bring certainly an increase of prosperity and probably an increase of security against the worst consequences of drought. A reduction of the capital expenditure on railways would have meant at least the postponement of these advantages.

(b) A reduction in the amount of temporary debt discharged in the last few years would have reduced India's power of borrowing in London in

future years, and would therefore have involved in the future disadvantages of the same general nature as the reduction of capital outlay would have involved in the immediate present. It would also have involved one particular disadvantage of very great importance, viz —the retention of obstacles, which the course actually followed has removed, in the way of pursuing a liberal policy when famine next occurs. At such a time the issue of temporary loans in London is a most valuable resource for meeting the financial difficulties which must arise, and the extent to which it can be used on any particular occasion is largely governed by the amount of temporary debt then in existence.

(c) In view of the difficulties that attended the comparatively small issues (32,873,200*l*) in London of Indian Government and Guaranteed Securities in the period from 1909-10 to 1913-14, there can be no doubt that any appreciable increase of their amount would have altered the position of such securities materially for the worse. This would have increased the difficulties in the way of future issues, and would therefore have led in the future to disadvantages of the kinds described in (a) and (b).

36 The above remarks set forth what, in my opinion, would have been the consequences of adopting in the period from 1909-10 to 1913-14 a different practice regarding the sales of Council Bills from that which has actually been followed. Assuming the correctness of my view as to the way in which the deficiency in the Secretary of State's resources caused by a reduction of the sales would have been met, it is clear that the economic development of India and its protection against the worst consequences of any future famine would have been seriously prejudiced. At any time hereafter a similar period may occur again, though I hope that the differences between the estimates of the Government of India and actual results will be less than in the period mentioned, so as to avoid certain consequences mentioned in Section IX below. In the event supposed, I think that the best interests of India will demand that the present practice regarding Council Bills be followed, viz, that (subject to not interfering with a flow of gold to India to the amount likely to be used by the public) they should be sold freely up to the amount that the Government of India can meet after providing adequately for requirements in India. This does not postulate anything as to the desirability or otherwise of the Government of India undertaking to meet in India larger or other requirements than now, *e.g.*, the supply of temporary accommodation for the Indian money markets. I recognise that such action, though disadvantageous if and in so far as it might reduce the capacity of the Government of India for meeting Council Bills, is not to be rejected merely

\* My own view is (1) that accommodation would be more advantageously granted to the money market in India from the Paper Currency Reserve (Section III above), and (2) that, even if granted from the Treasury Balances, it would alter the time, but not reduce the amount, of the sales of Council Bills

on that account\*. But this recognition does not in any way conflict with the view that the available resources of the Government of India, whatever they may from time to time be after providing for requirements in India, should be used fully and freely, as under the present practice, for meeting Council Bills, since otherwise the result must be either that gold will be uselessly and wastefully shipped to and fro between India and the rest of the world or that money will lie idle in Government Treasuries in India while expenditure for Indian purposes in London, which is now always urgently needed and will be so for as long as can be foreseen, will either not be incurred or will be met, if at all, from loans which, under existing practice are avoided.

## IX

### *High India Office Balances from 1910 to 1913*

37 Up to this point I have dealt with the period from 1909-10 to 1913-14 as a whole, because this seems to me necessary for considering the effect of the present practice regarding the sale of Council Bills and of any change therein. But it is necessary to refer to a fact which is connected with, but not solely or mainly due to, that practice, viz, the high level at which the India Office balance stood for part of the period. Between February 1910 and September 1912 they stood above 10,000,000*l*. This fact and its connection with the sale of Council Bills have given rise to criticism of a kind illustrated



by the following extracts from an article published by the "Times" on 4th November 1912 from "an Indian Correspondent" —

"Let us see for a moment what this accumulation of Indian money means. It means that many millions sterling of Indian money have been improperly withdrawn from India. They represent sums extracted from the taxpayer in excess of the requirements of the State, capital withdrawn from India for use in London and there used, not in pursuit of Indian interests but for the convenience of joint stock banks trading on inadequate gold reserves.

There is therefore no justification for the sale of a single bill by the Secretary of State beyond the actual amount which he needs to discharge his obligations in London. But these excessive sales of bills are a convenience to the exchange banks which have to remit funds to India, and it is often cheaper for them to buy bills than move bullion. They also afford a means of obstructing the natural flow of gold to India, and in this way allay the terrors of those joint stock banks who realise the inadequacy of the London gold reserves, and are not averse to protecting them at the expense of the Indian taxpayer. These, of course, are reasons which cannot be avowed.

For, long the Chairman of the Finance Committee at Whitehall was Lord Inchcape. He at least had Indian experience, although it was altogether out of date, and large interests in India, though he was never regarded in India as in any sense of the word a representative of Indian interests. Lord Inchcape was succeeded as Chairman by Sir Felix Schuster, who is assisted by Mr Currie and a civilian who has no direct knowledge of Indian conditions. No one questions for a moment the integrity of these gentlemen, but it is quite obvious that the interests which they most directly represent, and the environment by which they are most likely to be influenced, are not Indian interests. The thought always uppermost in their minds must be the position of the great joint stock banks. Now the distinguishing feature of the English joint stock banks is that they do an enormous business on a ridiculously small cash reserve, and that although great financiers in succession have pointed out the dangers of the situation, the banks have refused to share any portion of the burden of strengthening it. It is very convenient to these banks, to have 40 millions of Indian money locked up in London, and to receive large loans from it, with or without security, at low interest. When the Finance Committee turn for advice, it is on the exchange banks that they lean. The interests of these banks are bound up with cheap remittances to India, it is nothing to them if Indian interests suffer, or if the Indian taxpayer pays. Small wonder is it if, ground between the joint stock and the exchange bank, Indian interests have been reduced to powder and she has been compelled to see her resources diverted to the bolstering up of depreciated securities, to financing the City, and frequently to arresting the natural flow of bullion to her shores."

38 This and similar statements seem to rest on the assumption that the Secretary of State has adopted a policy of retaining in London a balance greatly in excess of the amounts needed to meet his requirements. This assumption is incorrect. Its incorrectness is shown by what is said in Section VII, and by several of the Statements that I am submitting, but most conveniently and briefly in Statement G of Appendix II, headed "Summary of India Office Transactions 1909-10 to 1913-14" (page 83). That Statement exhibits the following facts —

A The Budget Estimates from 1909-10 to 1913-14 provided for the reduction of balances as follows —

	Estimated opening Balance	Estimated reduction.	Estimated closing Balance.
	£	£	£
1909-10 - - - -	7,697,989	4,369,300	3,328,689
1910-11 - - - -	12,739,297	7,473,400	5,265,897
1911-12 - - - -	16,055,518	7,317,300	8,738,218
1912-13 - - - -	18,320,649	11,598,800	6,721,849
1913-14 - - - -	8,372,900	4,280,500	4,092,400

B In 1909-10, 1910-11, and 1911-12 the balance was increased during the year, instead of being reduced, as estimated, and in 1912-13 the reduction was of less than the estimated amount

By far the most important cause of the difference between the Budget Estimate and actual results was the excess of the receipts from Council Bills over the estimate framed by the Government of India, at the beginning of each year, of the amount that they could meet. The excesses were as follows —

	£
1909-10 - - -	1,806,586
1910-11 - - -	8,138,303
1911-12 - - -	9,245,216
1912-13 - - -	10,160,000 (of this 7,060,000l may be regarded as drawings against silver coined during the year)

The causes to which they were due are shown in Statements A and E of Appendix II (pages 67-73 and 81)

C In 1910-11 a part of the increase in the receipts from Council Bills was used for the discharge of 1,000,000l debt not provided for in the Budget, and similarly in 1911-12 and 1912-13 the issues of loans were reduced by 1,639,897l, and 1,315,000l respectively below the Budget estimates

A fact that is not exhibited by Statement G (page 83), is that the reason for not using in a similar way a larger portion of the excess receipts from Council Bills in the year in which they occurred, is that the information that the Government of India were able to supply, as to the probability of their occurrence was on each occasion very incomplete until nearly the end of the year, when either the loan programme of the year was complete, or the time at which it was possible to discharge additional temporary debt had passed by, so that, to a great extent, as explained on page 13, the excess receipts had to be used for the discharge of debt or the reduction of new issues in the year after that in which they accrued. A considerable amount of detailed information on this point is given in the "Memorandum on India Office Balances," recently presented to Parliament (Cd 6619), which it is probably not necessary to repeat here but it may be useful to reproduce from the Memorandum (pp 11-12) the following sentences — "In 1910-11 and 1911-12 a large part of the increase of receipts occurred late in the year. If it had occurred earlier, the effect would have been that the Secretary of State would have been able to alter somewhat the time of discharge of temporary debt. The total amount discharged in the three years (1910-11 to 1912-13), would not have been greater, since by 31st March 1913 all the temporary debt maturing by that date will have been paid off, but the final instalment of India Bills would have been paid off in June 1912 instead of in December."

39 What has been said above is enough to show that the Secretary of State has not adopted a new policy of the kind assumed in the statement quoted at the beginning of this section, and that the high level at which the India Office balance stood in some recent years is due to following established practice in a period in which, for several years in succession, the resources accruing year by year to the Government of India differed by an exceptionally large amount from the Budget Estimate

40 The question arises whether the possibility of this result is a reason for altering the existing practice regarding the sale of Council Bills. On this question I venture to offer the following remarks — It is, I think, clear from what is said in Section VII that a change in the existing practice would be substantially injurious to important Indian interests. If so, it ought not to be changed unless the disadvantages of its continuance are serious. The disadvantages which, as far as I have observed, are imputed to the present practice, are as follows —

(1) The suspicion which is said to be aroused in India when the Secretary of State's balances rise as high as they have done in recent years. Regarding this, there are two points to be noticed. (A) The "Times" stated on 20th January 1913, with reference to the series of articles published by it in November 1912, from which the extracts quoted above

are taken, that "Generally, it may be said that careful examination of the "files of the principal Anglo-Indian newspapers for the last two or three months shows that, while the views of our Anglo-Indian correspondent have altogether failed to secure widespread support, our contention in connection with them that the whole problem of Indian financial management should be re-examined by an independent and representative commission is supported in influential quarters, and is not contested by any important organ of Anglo Indian opinion" My own reading of the Indian newspapers, including the reports of meetings of Chambers of Commerce, strongly confirms the impression that the views quoted from the "Times" early in this section are not widely held (B) The divergences between the estimates of the Government of India and the actual results of the various years from 1909-10, which have been the chief cause of the Secretary of State's high balances, have been due to a considerable extent (as shown in Section V) to one exceptional cause that is not likely to recur

(2.) It is alleged that the present practice regarding the sale of Council Bills prevents the Government of India from placing money at the disposal of trade by way of deposits with the Presidency Banks or loans. It will be seen from what is said on pages 4 and 5, that, if such action by the Government of India is desirable, it is quite practicable without any change regarding the sale of Council Bills

(3) It is also alleged that the present practice regarding Council Bills prevents gold from going to India in amounts sufficient to satisfy the public demand. With reference to this contention I submit the following figures extracted from Statement H (pages 84-5), relating to a period in which the sales of Council Bills were exceptionally heavy —

	Imports of Sovereigns	Absorption of Sovereigns by the public during the year	Sovereigns held at end of year in Government Treasuries and Reserves at disposal of public in exchange for Rupees
	(1)	(2)	(3)
1909-10 - - - -	9,241,000	2,874,000	6,425,000
1910-11 - - - -	8,540,000	8,103,000	6,484,000
1911-12 - - - -	18,342,000	8,884,000	15,828,000
1912-13 - - - -	17,795,000	11,101,000	19,963,000

It will be noticed that in each year the importation of sovereigns (Col 1) exceeded the absorption by the public (Col. 2) and that at the end of each year there has been a substantial amount held by the Government at the disposal of the public to be exchanged for rupees. The amount so held on 31st March 1913 was higher than at the corresponding date in any previous year, and was sufficient to supply the demands of the public for 2½ years at the average rate of annual absorption shown in column 2. It will also be observed from Statement H that the absorption of sovereigns during the twelve years to which the Statement refers amounted to 60,066,000. In view of these figures it seems scarcely necessary to discuss further the contention under consideration

## SUPPLEMENTARY NOTE I.

Alternative methods of Regulating amount of Sales of Council Bills  
and Transfers

41 In the foregoing Memorandum the existing method of regulating the amount of Council Bills and Transfers sold in each year is explained. I believe that this method is far more conducive to the interests of India than any that could be substituted. But it is obviously desirable to consider what are the possible alternative methods and what would be the effect of the adoption of each of them.

The objects of the present Supplementary Note are to set forth the alternative methods that appear either to be advocated by the critics of the existing methods whose views I have seen, or, whether so advocated or not, to be possible subjects of reasonable discussion, and to submit the results of calculations as to the effect that their adoption from 1909-10 would have had in reducing the amount available from the proceeds of Bills for the general purposes of the Secretary of State.

I have disregarded in the calculations on which this note is based the sales of Council Bills of which the proceeds have been used, not for General Purposes (including purchase of silver), but for additions to the Gold Standard Reserve and the Paper Currency Reserve in England, since the disadvantages of not selling these Bills, though very considerable, would have been of a different nature from those (described on pages 19 and 20 of the Memorandum) attending the reduction of the amount sold for General Purposes.

## I

*To fix Budget Estimate of Council Bills at Amount of Home Charges  
and Actual Sales at Amount of Budget Estimate*

42 I gather from the perusal of controversial writings that one alternative method of regulating the sale of Council Bills that is occasionally contemplated as possible, is that the Budget of each year should provide for the sale of bills and transfers of the estimated amount of the Home Charges, *i e*, the net expenditure of the India Office chargeable against revenue, and that the actual sales of each year should be of this amount.

43 This is an impossible scheme for the following reasons —

(a) A normal Indian Budget provides for revenue to be received, almost entirely in India, of an amount approximately equivalent to the expenditure in India and England chargeable against revenue, so that, if the Government of India had only revenue transactions to consider, it would be able in a normal year to provide for remittance to England the equivalent of the total net expenditure in England chargeable to revenue. As a matter of fact there are also very important capital transactions partly in England and partly in India, and in some years the estimate of capital outlay in India exceeds by a considerable amount the estimated resources that can be provided in India towards meeting it. In such years the estimated amounts that can be provided by the Government of India for meeting Council Bills may fall short considerably of the estimated net expenditure chargeable to revenue in England, so that provision must be made in the Budget for the deficiency in England to be made good from the proceeds of loans or by reduction of the India Office balance. This is illustrated by the following figures which compare

the estimated sales of Council Bills for General Purposes with the estimated Home Charges from 1909-10 to 1913-14 —

*Budget Estimates of Home Charges and Council Bills*

	1909-10	1910-11	1911-12	1912-13	1913-14
	£	£	£	£	£
Home Charges (net)	18,717,000	19,054,500	19,105,400	19,298,400	18,786,100
Receipts from Council Bills	16,200,000	15,500,000	15,925,000	15,500,000	21,650,000

(b) There are years in which owing to unfavourable trade conditions, reducing the trade demand for Council Bills, the Secretary of State cannot sell bills up to the amount of the Home Charges, even if he has budgetted to do so and if the Government of India have the funds that would be required to meet the bills if sold

II

*To limit actual Sales of Council Bills to amount of Home Charges*

44 A possible variant of this scheme, which is at any rate practicable, is that in each year the remittances from India, without being limited to the amount of the Budget estimate, should not be allowed to exceed the amount of the Home Charges.

If this had been in force from 1909-10 the Sales of Council Bills for General Purposes from that year to 1913-14 inclusive would have compared as follows with the actual amounts —

	(1) Actual Sales for General Purposes	(2) If limited to Home Charges	(3) Difference (Col 1—Col 2)
	£	£	£
1909-10	18,006,586	18,006,586	—
1910-11	23,638,303	18,606,000	5,032,303
1911-12	25,070,216	18,866,000	6,204,216
1912-13	25,660,000	19,438,000	6,222,000
1913-14 (Budget Estimate)	21,650,000	19,579,000	2,071,000
	114,025,105	94,495,586	19,529,519

These figures show that, if the suggested alternative had been in force during the period to which the figures refer, the Secretary of State's receipts for General Purposes would have fallen short by 19,529,519*l*, which would have had to be made good from some source other than Council Bills. But it may be assumed that, if the sales of Council Bills had been limited in the manner suggested, the 7,060,000*l* paid for silver in 1912-13, which was obtained from the sale of Bills, would have been made from the sterling portion of the Paper Currency Reserve. This reduces to 12,469,519*l* the deficiency to be made good from other sources.

III.

*To base Budget Estimate on forecast of what Secretary of State can sell, and Government of India can meet, and to limit sales to amount of this Estimate*

45 A third alternative is that the Budget estimate of Council Bills should be drawn up in each year so as to provide for the sale of as many Bills as the Government of India estimates to be able to meet and the Secretary of State estimates to be able to sell, and that this estimate should not be exceeded.

46 The following figures have been prepared to show the amount that the Government of India would have been able to estimate to meet in each year from 1909-10, on the assumption that the amount for each year would have consisted of what was actually estimated under the existing practice plus the extra sum that the Government of India would have had in hand at the beginning of the year owing to the reduction in the manner suggested of the bills drawn on them during the preceding year or years, subject, however, to the further assumption which can be made with complete confidence, viz, that both the Secretary of State and the Government of India would have thought it necessary to limit the Budget Estimate of the sales of bills in each year to the amount for which there is likely to be a demand in a prosperous year. To neglect such a precaution when framing the financial arrangements for the coming year would be to incur the risk of complete financial confusion owing to a shortage of the sale of bills as compared with the estimate, and this is a risk which could not have been run without the greatest imprudence. I have taken the limit in question at 22,000,000*l* which exceeds the highest Budget estimate of Council Bills ever adopted.

47 On the assumptions mentioned, the sales of Bills for General Purposes that would have taken place from 1909-10 to 1913-14 compare as follows with the actual sales in 1909-10 to 1912-13 and the Budget for 1913-14 —

	(1)	(2)	(3)
	Actual Sales for General Purposes	Sales that would have taken place on conditions and assumptions used in this section	Difference (Col 1 - Col 2)
	£	£	£
1909-10	18,006,586	16,200,000	1,806,586
1910-11	23,638,303	17,306,586	6,331,717
1911-12	25,070,216	22,000,000	3,070,216
1912-13	25,660,000	22,000,000	3,660,000
1913-14 (Budget estimate)	21,650,000	22,000,000	-350,000
	114,025,105	99,506,586	14,518,519

Thus the shortage to be made good from sources other than the sale of Council Bills would have been 14,518,519*l*, which would have been reduced to 7,458,519*l*, if the silver bought in 1912-13 had been paid for by the transfer of gold from the Paper Currency Reserve.

#### IV

*To regulate sales so as to prevent closing balance of India Office from exceeding 4,000,000*l**

48 The last of the possible alternative methods of regulating the sale of bills appears to be that the Secretary of State should so regulate his financial arrangements that the closing balance of each year should be a fixed sum, say, 4,000,000*l*. If this method were adopted there would obviously be no possibility of drawing sums from the balances in the course of the year to make good a deficiency in the receipts from Council Bills and loans, so that it would be necessary in each Budget (a) to avoid placing the estimate of Council Bills higher than the amount for which a demand can be expected in a fairly prosperous year; (b) to estimate for the issue of loans to the full amount of the excess of total disbursements over the estimated receipts from Council Bills and miscellaneous sources. Moreover, in view of the low level at which the cash balance would ordinarily stand, and of the danger of postponing the issue of loans estimated to be required for the service of the year beyond the favourable early months of the year, the prudent (and presumably the ordinary) practice would be to issue in the first half of the year the full estimated amount of loans. If late in the year it became apparent that expenditure would be below the estimate, the sales of Council Bills would be reduced below the Budget Estimate so as to

prevent the closing balance from exceeding 4,000,000l On this basis and the assumptions—

- (1) that the estimate of Council Bills would not in any year have been higher than 22,000,000l, and
- (2) that the silver bought in 1912-13, so far as it could not have been paid for from the proceeds of the sale of Bills or from the receipts, estimated for in the Budget under other heads, would have been paid for with gold withdrawn from the Paper Currency Reserve,

I have calculated—

(1) That the sales of Council Bills for General Purposes under the suggested system from 1909-10 to 1913-14 would have compared as follows with those actually made (or estimated to be made in 1913-14) under the existing system —

	(1) Actual Sales	(2) If regulated so as to prevent closing India Office balance from exceeding 4,000,000l	(3) Difference, (Col 1 - Col 2)
	£	£	£
1909-10	18,006,586	15,126,800	2,879,786
1910-11	23,638,303	17,228,786	6,409,517
1911-12	25,070,216	20,594,997	4,475,219
1912-13	25,660,000	25,660,000	—
1913-14 (Budget Estimate)	21,650,000	22,000,000	- 350,000
	114,025,105	100,610,583	13,414,522

(2) That, under the conditions supposed, 3,931,200l would have been withdrawn in gold from the Paper Currency Reserve in England towards paying for silver in 1912-13, and would thereby have served towards making good the shortage shown in the table just given

49 It is possible that the conditions mentioned at the beginning of this section would have been departed from to the extent that some of the loans that would have been included in the Budgets of the various years under this scheme would not have been issued, and that the equivalent of the receipts anticipated from them would have been obtained late in the year by additional sales of Council Bills, which might then have been effected without raising the closing balance of any year above 4,000,000l So far as this took place, it would have reduced the deficiency of the sales of Council Bills under the suggested system, as compared with those that have actually been made under the existing system below the amount given in the third column of the Table above But, having regard to the smallness of the balance that would ordinarily have been at the disposal of the India Office under the system now being discussed, and to the manifold uncertainties that have attended the financial position in the period from 1909-10, the abandonment or postponement of loans estimated to be necessary for the needs of each year would have involved great risk and would presumably not have occurred to any large extent. Any allowance for the possibility of such abandonment must clearly be conjectural, and any reasonable conjecture must place the figure low

## SUPPLEMENTARY NOTE II

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Cost of reducing Sales of Council Bills and substituting remittances  
by Shipment of Gold

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**A.**

50 The object of the present Note is to calculate as closely as conditions allow the loss to the Government that would have been incurred if, in place of the practice that has been, and is being, followed in respect of the sales of Council Bills and Transfers from 1909-10 to 1913-14, the following course had been adopted —

- 1 Reduction of the sales of Council Bills and Transfers to the extent shown in the various sections of Supplementary Note I
- 2 Making good the consequent deficiency in the Secretary of State's resources partly (to the extent mentioned in that Note) by the "unearmarking" of gold (*i.e.*, its transfer from the portion of the Paper Currency Reserve held in England), and partly by the shipment of gold by the Government of India to the Secretary of State when necessary to prevent his closing balance in any year from falling below (approximately) 4,000,000*l*

**B.**

51 It is necessary to consider—

- Loss directly due to the substitution of one method of remittance for another
- Loss of interest due to the location in India of part of the total balance that was actually held in England

**C.**

*Loss directly due to the substitution of one method of remittance  
for another.*

52 This arises under two heads —

(1) When sovereigns are sent to India to be exchanged for rupees, the rate at which the exchange is effected is 1*s* 4*d* per rupee. The average rate at which Council Bills and Transfers were sold from 1909-10 to 1912-13 was 1*s* 4 061*d* (approximately 1*s* 4 1 1/8*d*). Thus the substitution of the former method of remittance for the latter in respect of a portion of the total remittances would have caused in the first instance a loss to the Government of the premium of 061*d* per rupee (or 3.8125 per cent), unless the change had brought about a compensating increase in the premium on the remainder of the remittances, which would still have been effected by means of Council Bills. There is no sufficient reason for assuming that this would have been the case since, as shown in the Note which Mr. Newmarch is submitting,\* the rate of 1*s* 4 061*d* (1*s* 4 1 1/8*d*) is one at which remittances of gold compete effectively with remittances by Council Bills.

(2) The shipment of gold by the Government of India to the Secretary of State would have involved a loss of approximately 5 per cent for cost of freight and insurance.

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\* See Appendix VII (page 220)



53. Applying these percentages to the amounts shown in the several sections of the Supplementary Note on "Alternative Methods, &c," the loss directly due to the substitution of one method of remittance for another may be calculated as follows —

Table I

	Loss of premium at 38125 per cent on Amount of Reduction of Sales		Freight, and Insurance, at 5 per cent on Shipments of Gold to make good Reduction of Sales less portion assumed in Supplementary Note I to be made good by "unseamarking" of Gold		Total Loss, Col 2 + Col 4.
	Amount of Reduction (1)	Loss (2)	Amount of Shipments (3)	Loss (4)	
Section II of Supplementary Note	£ 19,529,519	£ 74,456	£ 12,469,519	£ 62,347	£ 136,803
Section III " "	14,518,519	55,352	7,458,519	37,292	92,644
Section IV " "	13,414,522	51,142	9,483,322	47,416	98,558

## D.

*Loss of Interest in England due to the Location of part of the Balance in India*

54. The average India Office Balance (calculated from the monthly closing balances) in the years 1909-10, 1910-11, 1911-12, 1912-13, and 1913-14 (Budget estimate), the approximate rate of interest earned, and the total interest earned, are shown in the following Table. The figures in columns 1, 2, 3, and 5 for the first four years are actuals, the rate of interest (Col 5) for those years is obtained by distributing the total interest earned over the average balance shown in column 1, the average balance for 1913-14 is taken at the mean between the estimated opening and closing balances, the portion not earning interest in 1913-14 at the equivalent (approximately) of the corresponding figure for the preceding years, and the rate of interest in 1913-14 at the average rate of the preceding four years. —

Table II

	Average Balance		Total	Rate of Interest per Cent	Interest Earned
	Earning Interest * 1	Not Earning Interest * 2			
1909-10	£ 7,478,650	£ 1,103,690	£ 8,582,340	1.739	£ 130,070
1910-11	13,146,482	1,128,708	14,275,190	2.760	362,880
1911-12	15,638,357	1,095,618	16,733,975	2.405†	376,053
1912-13	10,952,913	1,033,877	11,986,790	3.398	372,170
1913-14 (Budget Estimate)	5,338,314	1,100,000	6,438,314	2.575	137,462
					1,378,635

\* The amounts in column 1 are somewhat greater, and those in column 2 correspondingly less, than they would be if the averages were based on the figures of each day instead of on those for the last day of each month. This is due to the fact that on the evening of the last day of some months, the balance held at the Bank of England, and therefore not earning interest, must be exceptionally high, to provide for large payments to be made on the following day.

† This rate differs slightly from the "average approximate" rates given on 22nd March 1913 in reply to a question in the Viceroy's Legislative Council on 22nd March 1913 (see page 13 of "Memorandum on India Office Balances"—Command Paper 6619 of 1913), viz —2.60 per cent on loans to approved borrowers and 2.43 per cent on deposits. These rates were given before the end of the financial year to which they refer.

55 The reduction of the Sales of Council Bills to the extent shown in the various sections of Supplementary Note 1 on "Alternative Methods, &c," would have reduced the closing balances in the various years, if no special measures had been taken to replenish them, such as transfer of gold from Paper Currency Reserve in England or shipment of gold from India to the following amounts —

Table III

	Section II of Supplementary Note 1 on "Alternative Methods, &c"	Section III	Section IV
1909-10	£ 12,799,091	£ 10,992,505	No figures can be given, as the conditions in Section IV imply that the closing balance of each year would have been kept at 4,000,000 <i>l</i> , if necessary, by loans
1910-11	11,664,687	8,558,688	
1911-12	7,153,494	7,181,494	
1912-13	-8,674,314*	-6,084,314*	
1913-14	-15,437,096	-10,426,096	

\* These figures are based on the actual closing balance of 1912-13 which differs by 411,305*l* from the Revised Estimate given in Statements A, B, and G of Appendix II (pages 67-75, and page 83)

56 If, in the years when replenishment would have been necessary, it had been effected by the "unearmarking" of gold (to the extent assumed in the various sections of the Supplementary Note on "Alternative Methods, &c"), and the shipment of gold from India, to the total amount shown in Table I above, and if, as assumed in Section A above, these operations had been timed so as to bring the closing balances in the years in which they were effected to (approximately) 4,000,000*l*, the closing balances of the various years would have been as follows —

Table IV

	Section II	Section III	Section IV
1909-10	£ 12,799,091	£ 10,992,515	£ 4,000,000
1910-11	11,664,687	8,558,688	4,000,000
1911-12	7,153,494	7,181,494	4,000,000
1912-13	4,000,000	4,000,000	4,000,000
1913-14	4,092,423	4,092,423	4,000,000

57 Taking the opening balance of 1909-10 at the figure at which it actually stood (7,983,898*l*) and assuming that the average balance of each year would have been the mean between the opening and closing balances, and that, as in Table II, approximately 1,100,000*l* would not have been earning interest, then the interest that would have been earned at the rates that were actually realised in the first four years, and at a rate for 1913-14 based on the average rate for the four preceding years, would have been as follows —

Table V

	Average Balance earning Interest			Rate of Interest earned	Amount of Interest earned.		
	Section II of Supplementary Note on "Alternative Methods, &c"	Section III	Section IV		Section II	Section III	Section IV
	£	£	£	p c	£	£	£
1909-10 -	9,291,500	8,388,250	4,891,950	1 739	161,579	145,872	85,071
1910-11 -	11,131,900	8,675,600	2,900,000	2 760	307,240	239,447	80,040
1911-12 -	8,809,100	6,770,050	2,900,000	2 405	199,834	162,820	69,745
1912-13 -	4,476,750	4,490,700	2,900,000	3 398	152,120	152,594	98,542
1913-14 -	2,946,200	2,946,200	2,900,000	2 575	75,835	75,565	74,675
			Total	-	896,638	776,598	408,073

58 Thus, in addition to the loss directly due to the substitution of one method of remittance for another, there would have been a loss of interest as follows . -

Section II	-	-	£ 1,378,635	-	£ 806,638	=	£ 481,997
„ III	-	-	£ 1,378,635	-	£ 776,598	=	£ 602,037
„ IV	-	-	£ 1,378,635	-	£ 408,073	=	£ 970,562

## E.

59 The gross loss due to the causes dealt with in C and D above would have been as follows -

Table VI

	Section II of Supplementary Note on "Alternative Methods, &c"	Section III	Section IV
	£	£	£
Loss due to substitution of one form of remittance for another	136,803	92,644	98,558
Loss of interest on Balance in England -	481,997	602,037	970,562
Total	618,800	694,681	1,069,120

## F.

60 It may perhaps be considered that the loss shown should be reduced by allowing for interest that would have been earned on loans that would have been granted from the portion of the general balance held in India. Apart from the fact that this policy has not been actually introduced, I think that no such allowance should be made because I am of opinion, for the reasons stated in my main Memorandum, that by far the best source for loans in India is not the general Treasury balance of the Government of India, but the Reserve of the Paper Currency Department in India and it is probable that any amount that could be advantageously lent in India could be provided from this source. In case, however, it be thought necessary to assume that loans would have been granted in India from the additional amounts that

would have been held in the Treasury balances in India under the conditions supposed in this note, I submit the following calculation regarding these amounts —

Table VII.

	Addition consequent on reduction of Payments to meet Council Bills			Deduct amount of Gold that would have been shipped or "unmarked" (the latter involving reduction of Indian Treasury Balances)			Net addition to Indian Treasury Balance		
	Section II	Section III	Section IV	Section II	Section III	Section IV	Section II	Section III	Section IV
31 Mar 1910	£ —	£ 1,806,586	£ 2,879,786	£ —	£ —	£ —	£ —	£ 1,806,586	£ 2,879,786
" 1911	5,032,303	8,138,303	9,250,303	—	—	—	5,032,303	8,138,303	9,250,303
" 1912	11,236,519	11,208,519	13,764,522	—	—	3,114,303	11,236,519	11,208,519	10,650,219
" 1913	17,458,519	14,868,519	13,764,522	12,674,314	10,084,314	7,264,522	4,784,205	4,784,205	6,500,000
" 1914	19,529,519	14,518,519	13,414,522	19,529,519	14,518,519	13,414,522	—	—	—

61 In calculating the interest that might have been earned in India on these additions to the Indian balances, it is necessary to bear in mind (1) that the amount which could be advantageously and safely lent in India is limited, and (2) that owing to the well-known seasonal character of Indian trade, the loans would probably have been sought during only a part of each year. The following figures show approximately the total interest that would have been earned in India if (subject to a maximum of 3,000,000 in any one year) the net additions to the Indian balance shown above had been lent, in the years in which they are supposed to have accrued, at 6 per cent per annum for six months —

	£
Scheme in Section II of Supplementary Note on "Alternative Methods, &c"	- 270,000
Scheme in Section III	- 324,000
Scheme in Section IV	- 356,000

## APPENDIX II

CORRESPONDENCE AND OTHER OFFICIAL PAPERS TO ACCOMPANY THE MEMORANDUM AND SUPPLEMENTARY NOTES ON THE LOCATION AND MANAGEMENT OF GENERAL BALANCES OF SECRETARY OF STATE, AND SALE OF COUNCIL BILLS AND TRANSFERS, HANDED IN BY MR L ABRAHAMS, C B, ASSISTANT UNDER SECRETARY OF STATE FOR INDIA

No 256, dated 30th June 1874

From—The Government of India  
To—H M's Secretary of State for India

We have postponed consideration of the Bill for the regulation of the Presidency Banks and of the agreements depending upon it, pending receipt of the decision of Your Lordship in Council on the question of the agency of the Bank of Bengal in Bombay, in regard to which we forwarded with our despatch of the 9th January, No 17, a letter from the Directors of the Bank of Bengal

2 The strain to which our finances were exposed early this year has given us the advantage of an experience which we had not when the terms of the new agreements were last under our consideration

3 We have been much impressed with the consideration that the effect of the existing agreements with the banks which compels us to place all the cash balances belonging to Government in their hands leads to consequences which may be very inconvenient, if not worse, both to Government and to trade

4 The only use of these balances to Government is that they may be made available the moment the public service requires them

5 We have had no difficulty in regard to the balances in the hands of the Banks of Bengal and Madras, the Bank of Bombay, however, protested against meeting drafts upon it, and on the urgent representations of the Governor of Bombay we were obliged, on the 29th January, to allow a month's time before drawing

6 The Bank of Bombay, accustomed to high Government balances, and relying on the maintenance of those balances had so employed them that they were practically locked up, for had we insisted on withdrawing them more suddenly we should have done so in the face of a warning that we should produce a commercial crisis, and therefore for a time the Government balances at Bombay were useless for the purposes of the Government

7 We think it doubtful, moreover, whether it is any real advantage to trade that large Government balances should be kept in the hands of the banks. It appears to us that an element of uncertainty is thereby introduced into the money market not unlikely to aggravate commercial difficulties at a time of tightness

8 An amount of capital which is large relatively to the whole capital engaged in trade at the Presidency towns is supplied by Government, but Government, for reasons quite unconnected with trade, may have to withdraw these balances suddenly

In this case a sudden demand ensues for capital to replace that which is thus removed, the rate of discount rises, not from any commercial reason, but from the accident of State necessities, and if this should occur at a time of commercial pressure it would precipitate a crisis which otherwise might not occur. If Government did not supply this capital to the trade it would be found by private individuals through banks or in some other way

9 Had the Government funds in the hands of the banks in January last been limited to a fair working balance, and had we had a reserve in our own hands, we think it may be assumed that the market rise in the rates of discount which has occurred would not have taken place, and our business would have been transacted without disturbing trade operations

10 The resources of a large money market are not open to us, and we do not think it would be safe to trust to being able to raise funds readily and immediately in India. The amount (350,000L) that we wanted in January out of our balance of about a million with the Bank of Bombay, and the demand for which brought down the remonstrance that we should place in jeopardy the trade of Bombay, cannot be considered as large. Calcutta may have larger resources, but we cannot suppose that even here the supplies immediately available are really considerable

11 We are of opinion that a Government subject to the contingencies to which the Government of India is exposed ought not to be without a reserve, and that this reserve should be in its own hands

12 This object might be attained by dissolving our connection with the banks and re-establishing our treasuries. We are unwilling to take this course unless forced to do so the banks are useful institutions, and the Bank of Bengal especially has upon several occasions been of great assistance to the Government

13 We should prefer, as an alternative plan, to make a change in the agreements with the banks, so that instead of giving them the right to hold all the Government balances the stipulation may be confined to engaging to pay them interest when our balances are reduced below certain amounts

If it be necessary to go further than this we might stipulate that the banks should have the use of our balances up to certain limits, after which we should be unfettered as to their employment. The exact sums to be fixed in connection with the proposed stipulations would be settled in communication with the banks

14 The amount to be kept in reserve need not, in our opinion, be very large, as the main difficulty is one only of time. The sense of security which we should derive from the possession of a reserve of two millions immediately available for any emergency would, in our judgment, amply repay the charge for interest on that amount

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No 225, dated 6th May 1875

From—The Secretary of State for India (Lord Salisbury)  
To—The Government of India

I have considered in Council the following communications from your Government—

Financial letter dated 9th January 1874, No 17,  
Telegram dated 9th January 1874,  
" " 2nd February 1874,  
Financial letter dated 6th February 1874, No 41,  
" " 6th February 1874, No 42,  
" " 13th March 1874, No 77,  
, " 24th April 1874, No 142,  
, " 30th June 1874, No 256,

relative to proposed modifications of the agreements with the Presidency Banks for the conduct of the Government business, and the withdrawal of the Agency of the Bank of Bengal at Bombay

2 I have also had before me letters from Mr J B Norton, dated the 9th March 1874, and from Messrs. Marshman, CSI, and E H Lushington on behalf of the shareholders of the Bank of Bengal, dated the 17th of the same month, on the subject of the continuance of the Bank of Bengal's Agency at Bombay. Copies of those letters are forwarded herewith for your information

3 Your letters Nos 17, 41, 42, 77, and 142, as well as the telegrams of the 9th January and 7th February 1874, refer to the proceedings of the Agency of the Bank of Bengal at Bombay, and of the New Bank of Bombay

4 In your letter of the 30th June you state that you "have been much impressed with the consideration that the effect of the existing agreements with the Banks which compels us to place all the cash balances belonging to Government in their hands, leads to consequences which may be very inconvenient, if not worse, both to Government and to trade," and you are of opinion that, having regard to the contingencies to which the Government of India is exposed you ought not to be without a reserve of cash in your own hands. That object, you remark, might be attained by dissolving your connection with the Banks, and re-establishing Government Treasuries, but you "are unwilling to take this course unless forced to do so, the Banks are useful institutions, and the Bank of Bengal especially has, upon several occasions, been of great assistance to the Government"

5 Under the present agreements with the Presidency Banks, in each of which Government is a shareholder, and is now represented on the Boards of those of Bengal and Madras as it was formerly also on that of Bombay by Directors of its own choosing, Government undertakes, though without penalty for failure, to keep average balances as follows —

	£
In the Bank of Bengal - - - -	700,000
" " Madras - - - -	250,000
" " Bombay - - - -	400,000

And at the head-quarters of the Banks Government is bound to pay interest whenever its balances fall below the following minima —

	£
With the Bank of Bengal - - - -	450,000
" " Madras - - - -	200,000
" " Bombay - - - -	250,000

6 Direct payments are also made to the Banks, viz —			
	Bengal	Madras	Bombay
	Rs	Rs	Rs
1 For General Treasury duties at Head Office (annually)	43,606	12,000	12,240

2 For Savings Banks (all alike), three-eighths per cent on the aggregate balance of deposits at the close of the preceding year, and 8 annas a year upon each active account

3 Packing and despatching treasure (all alike)	-	-	Actual charges
	Rs	Rs	Rs

4 For public debt, for each crore on the register - 3,500 4,000 4,000  
Government, moreover, undertakes that the payments that would formerly have been made into the treasuries at Calcutta Madras, and Bombay, and local treasuries, shall be made into the Presidency Banks and the branches thereof, where established with the sanction of Government, and you\* state that "the entire public balances, however

\* Financial letter from the Government of India, dated the 8th June 1873, No 231 "large they may be, at the Branch Banks, are at the disposal of the Banks which receive no other remuneration for doing the Government business at the branches. The Government is not bound to keep up any minimum

“ balance at any branch, but it undertakes to instruct its officers not only not to overdraw their account at the branches, but always to provide a margin at their credit, and, also, that the balance at any Branch Bank is not to be reduced below what it would be necessary to keep in the Government Treasury at the same place, were there no agreement with the Bank ” On the other hand, the Banks are at present restricted both as to the nature and the field of their business

7 It has been decided that the Government shall cease to hold shares in these Banks, and shall have no part in the Direction. But you propose that the law shall still impose on the Banks certain special restrictions. They are still, as now, to be prohibited from certain hazardous branches of business, and their field of operations is, as at present, to be subject to the consent of the State. On the other hand, you would so far alter the present agreements, that “ instead of giving the Banks the right to hold all the Government balances, the stipulation may be confined to engaging to pay them interest whenever our balances are reduced below certain amounts ”

8 The connection which has thus existed between the State and the Banks has from time to time been the cause of very serious embarrassment. It has produced a general impression that the State is responsible both for the good conduct and prosperity of the Banks, and when any of them has been involved in difficulty or danger, there has been a disposition to claim, as of right, assistance, or even indemnity, from the Government of India.

9 The controversy which has arisen between the Bank of Bombay and the Bank of Bengal in a great degree arises out of this misconception. It has been thought wise so far to limit the natural competition between the two Banks as to prohibit either from setting up branches beyond the limits of its own Presidency. This policy whatever its merit, has been adopted on public grounds. The public balances have formed so large a part of their resources that these might, it was believed, have been endangered, if they had been made the instruments for maintaining an unrestricted competition. But no private rights to Government protection were created by this provision, and it affords no foundation for the claim that the Bank of Bengal shall be compelled, against its own strenuous remonstrances, to employ the Bank of Bombay exclusively as its agent at Bombay.

10 The expectations unfortunately engendered by the close connection existing between the State and the Presidency Banks were the cause of an inconvenience, almost amounting to a public danger, which was experienced by Your Excellency's Government in January of last year, and which is much dwelt upon in the despatches before me. The strain upon your finances arising out of the famine compelled you to draw at that time for 35 lakhs upon the Bank of Bombay. Accustomed to high Government balances, and relying on the maintenance of those balances, the Bank had so employed them that they were practically locked up. You were met by an urgent telegram from the Governor stating that, if you drew anything from the Bank at that time, you would cause a general commercial panic, and other remonstrances equally pressing were addressed to you from the Bank of Bombay. The result was, that you were compelled, at a moment of singular pressure, to abandon the proposed draft. Your Excellency has correctly stated that “ the Government of India has never undertaken to keep balances with the Presidency Banks for the use of persons engaged in trade and it would be highly inconvenient to admit that any responsibility attaches to the Government in this respect, or that the Government is called upon to regulate the amount that it will leave in the hands of any of its bankers with reference to any other considerations than the interests of the public service ” But from the tone of the appeals addressed to you, it is evident that this conception of Your Excellency's duties had in fact arisen in the public mind, and was doubtless due to the relation which had existed between the State and the Presidency Banks.

11. But the tendency to found extravagant expectations upon this connection is more remarkably exemplified in the claims which have been, and up to this day are still urged upon the Government by the shareholders of the former Bank of Bombay. In that Bank the Government held shares, and, as a shareholder, contributed three Directors to the Board of Management. The Bank was regulated by a legislative charter of incorporation, similar in kind to that which Your Excellency is preparing to grant to its successor. The Government Directors were not always capable, and the charter, whilst it imposed some restrictions, omitted others to which the other Banks had been subjected. These two considerations were sufficient, when the Bank in 1866 was ruined by mismanagement, to persuade the shareholders that they had a genuine claim against the Government for compensation. Further reflection has not diminished its value in their eyes, for up to the present year they have not ceased to urge it. That Government should, in consequence of its relations with the Banks, have become liable, in the eyes of an intelligent body of men, to such a demand, is a circumstance not to be overlooked in considering the form which those relations in the future are to assume.

12 It was inevitable from the nature of the connexion between the State and the Banks, that difficulties of this character should occur, and it is probable that under

existing arrangements they may occur not infrequently. The State possesses power greater than any individual, and it is liable to pressure from which individuals are free. A shareholder who can without absurdity, be asked to indemnify other shareholders for the errors into which the Directors who represent them all have fallen, a customer who contracts to deposit all his balances at the Bank, and who can be reproached as acting unreasonably if he desires to use them when money is scarce—is evidently more valuable to a Bank than ordinary shareholders and customers, and if pressure be necessary to enforce these requests it will probably be applied. In the same way, an external power which can be called upon to prohibit a competitor from encroaching on the markets enjoyed by his rival, possesses a jurisdiction which is too useful not to be frequently invoked. The Banks cannot in any degree be blamed for profiting by the relations into which the State has voluntarily entered. They press naturally for such concessions, and the Government cannot refuse them without incurring odium, or grant them without great embarrassment.

13 The time has come when Her Majesty's Government must consider how far these relations shall continue. Originally they were probably devised to provide banking facilities for the commerce of the country, which it would have been otherwise unable to procure. The development of trade has lessened the cogency of this reason, and I agree with Your Excellency in the doubts you express as to the real value of artificial facilities which arise from large Government balances with the Banks. Capital supplied by Government, and not representing the savings of the community, is a resource on whose permanence no reliance can be placed, and which therefore tends to lead traders into dangerous commitments. It gives ease for a time, and produces a prosperity which is at the mercy of an accident. A political exigency suddenly withdraws the adventitious resource, and the commerce which trusted to it finds itself pledged beyond what its own resources can make good.

14 In your despatch of the 30th June, Your Excellency has intimated a desire to keep a reserve of two millions in bullion in your hands, and you express the opinion that, the sense of security which you would derive from the possession of such a reserve immediately available for any emergency, would in your judgment amply "repay the charge for interest on that amount." I recognise the serious danger to which the want of such a reserve exposes you in emergencies. But the emergencies happen so rarely, that I should reluctantly consent to sacrifice interest to the extent of 80,000*l.* a year permanently to meet them.

15 The object you have in view will be sufficiently attained by freeing yourself from all exceptional liability to the Banks. Your proposal that a minimum balance should be fixed, all deduction from which should carry interest against you, appears to me to be reasonable. Without such a protection, express or implied, it would be difficult for the Banks to transact business with so large a customer. You would naturally take care to fix a minimum which should not impose any burden upon the State beyond what is necessary for their fair remuneration. Any such arrangement should be supplemented by a corresponding provision, that if the balances which you think fit to leave with the Bank exceed a fixed maximum, and the Bank should desire to retain them, they should bear interest in your favour. But these agreements would not give to your relation with the Banks any exceptional or even unusual character.

16 No further engagement on your side will be necessary. The understanding that all revenue is to pass through the Banks wherever branches exist will not be renewed. You will take care to make it clearly understood that the amount of your deposits is discretionary, and that if it is convenient to you at any time to retain in the Treasury the proceeds of the revenue, the Banks possess no right in respect to it that will entitle them to complain.

17 In ordinary times you will probably not wish to retain money in the Treasury. If any apprehension of difficulty is felt, or if the course taken by any Bank indisposes you to trust it with the custody of large deposits, it will be at your discretion to hold back the growing produce of the revenue in the Treasury, instead of paying it over to the Bank. At a very brief notice you will thus be able to accumulate, in your own coffers, the two millions which you judge to be necessary for your security in times of pressure, even if a large portion of it cannot be provided by drawing upon your balances. Any sum so reserved you will deal with according to the exigencies of the time. It will be competent for your Financial Department either to retain it in the Treasury or to lend it for short terms under suitable conditions as to interest and security.

18 The engagement which the Banks on their side should be asked to undertake will be only those to which they would probably by preference submit. If you incorporate them by special legislation, you may properly insert into the Act the restrictions which do not injure their commerce but increase the confidence they enjoy. They should be required to abstain from the hazardous business of foreign exchanges, and from lending on any but the most approved securities. A



weekly statement, such as that which is issued by the Bank of England, together with a weekly classification of the securities on which they have advanced, should be supplied by a responsible officer, who should be bound to a true statement under penalty. You will at the same time require such confidential returns as may be necessary to place Your Excellency in full possession of all the requisite information with respect to the distribution of the resources of the Banks and the character of their operations. If the information furnished by these returns is sufficiently detailed, it will not be necessary to reserve a power of inspection, which might impose upon you in the public view an undue responsibility for the management of the Banks, and would, in other respects, place the Government in a false position towards them.

19 These restrictions are no more than you may rightly exact as a condition of the position of advantage in which the Banks are placed by receiving Acts of Incorporation, and by their connection with your Government.

20 The charter of incorporation will, as heretofore, assign to each Bank the limits within which it may lawfully establish branches. This provision is earnestly valued by the smaller Banks, and is not resisted by the Bank of Bengal. It is open to many and serious objections upon general grounds, but it is agreeable to a practice which has long prevailed, and to abandon it would be to make a superfluous addition to the important changes which the exigency of the case makes it necessary at this juncture to adopt. For these reasons the condition may be reimposed.

21. The demand of the Directors of the Bank of Bombay, that the Bank of Bengal shall be compelled to employ them as agents, stands upon a different footing. The condition has not been imposed before, and it is strenuously resisted by the Bank of Bengal. The acquiescence of that Bank could not be obtained except at the price of some special privilege in fiscal matters, which in effect could only be provided at the cost of the Indian tax-payers. No public advantage could be shown in favour of such an arrangement, and the experience of last year furnishes a new argument against it of much cogency. I should, therefore, not approve of any provisions being inserted in the Bill to disturb the existing state of things in that respect.

**RESOLUTION—By the Government of India (Financial Department), No 317, dated  
19th January 1876**

**RESOLUTION**—The Governor-General in Council is about to conclude new contracts for the transaction of public business by the Presidency Banks of Bengal, Madras and Bombay, under which the Government will only maintain with the Banks such balances as may be considered convenient with reference to the requirements of the public service.

2 Arrangements will simultaneously be made for the constitution of a separate reserve treasury under the custody of the Comptroller-General, in which will be concentrated all funds not required for the immediate purposes of the Administration.

3 The Governor-General in Council reminds each Accountant-General, and Deputy Accountant-General in independent charge, that it is a principal part of his duty to devise all the means which his experience may suggest to reduce and economise the balances in the treasuries in account with him, without of course resorting to measures which must result in useless expense, as for instance bringing away from any treasury funds which must shortly be supplied to it again.

4 Each Accountant-General, and Deputy Accountant-General in independent charge, should make it his constant care to concentrate all the spare resources of the treasuries in account with him in some convenient receiving treasury or treasuries, and should keep the Comptroller-General always informed of the amount which is thus ready at his disposal for the general service of the Empire.

5 Enquiry has, heretofore, several times been made as to the lowest balances which will suffice for the conduct of the Administration in each province in each month of the year, but as circumstances change, it is not necessary to advert particularly to the results of these enquiries.

6 Each Accountant-General, and Deputy Accountant-General in independent charge, is now desired to report afresh the minimum aggregate amount, apart, in the case of Madras and Bombay, from the balances in the headquarter offices of the Presidency Banks, which he considers absolutely necessary to retain in all the treasuries in account with him at the beginning of each month in the year. He will compare the amounts thus reported with the actual minimum aggregate amounts held in these treasuries in each month during the last twelve years, and explain fully his reasons for estimating more than such actual aggregate minimum. The Government of India does not wish to interfere with the distribution of the provincial balances in District Treasuries.

7 In making his report, the Accountant-General, or Deputy Accountant-General in independent charge, will set forth any practice of the Administration, whether

Imperial or Provincial, which in his judgment makes a larger working balance necessary than would otherwise be necessary

8 The report should be submitted to the local Government, duplicate being sent to the Government of India, in the Financial Department. The local Government should address any remarks that it has to make on the report to the Government of India, in the Financial Department, as soon as possible

9 The Comptroller-General will make, direct to the Government of India, in this Department, a similar report in respect to all treasuries in direct account with him, excepting the Government balance at the head-quarter office of the Presidency Bank of Bengal

No 2088, dated 30th December 1879

From—R B Chapman, Esq, C S I, Secretary to the Govt of India, DEPARTMENT OF FINANCE  
To—The Comptroller-General.

In reply to your letter No 1775, dated the 6th December 1879, I am directed to state that the Governor-General in Council sanctions the establishment of Branch Reserve Treasuries at Madras and Bombay in connection with the Currency Offices, on the understanding that the arrangement will involve no extra expense to the State

These Branch Reserve Treasuries will be entirely at your disposal, and no payments will be made therefrom without your permission

The balances in these Branch Reserve Treasuries may be kept in currency notes of large denomination, and the amount of notes held in the Reserve Treasury and its branches may be distinguished from those in actual circulation in the manner proposed by you

The Security Bonds of the Treasurers of the Currency Offices should be revised, so as to include these Reserve Treasuries. The cost of revising the bonds will be paid by Government

RESOLUTION—By the Government of India, Department of Finance and Commerce,  
No 949, dated 21st February 1889 (Gazette of India, 23rd February 1889)

READ the undermentioned correspondence with the Bombay Chamber of Commerce regarding the policy of Government in dealing with its cash balances —

Letter from the Chamber of Commerce, dated 9th August 1888  
Letter to the Chamber of Commerce, No 4972, dated 8th September 1888  
Letter from the Chamber of Commerce, dated 4th October 1888  
Letter to the Chamber of Commerce, No 234, dated 12th January 1889, and enclosure

ORDER—Ordered, that this correspondence be published in the *Gazette of India* for general information

Dated 9th August 1888

From—The Secretary to the Chamber of Commerce, Bombay  
To—The Secretary to the Government of India, DEPARTMENT OF FINANCE AND COMMERCE

I am directed by the Committee of the Chamber to address you with regard to the recent heavy withdrawals of Government funds from the Bank of Bombay. Without, as the Committee understand, any preliminary notice the Government withdrew from the Bank the sum of about one-and-a-half crores of rupees during the week ending 28th ultimo, thereby creating an unexpected pressure in the money market and an advance in rates of discount of about two per cent per annum. My Committee believe that Government must have had good and sufficient grounds for their action in this matter, and they have no doubt, when the reasons are explained, that the withdrawals were necessitated by the exigencies of the public service. They are of opinion, however, that steps should be taken to avoid unexpected demands of this character, which might, under other circumstances, lead to serious results in business, and, possibly during the busy season, to financial complications. These withdrawals, moreover, attract attention to a subject which has more than once been under the consideration of this Chamber in the shape of the large unemployed balances in the Government Treasuries throughout the country. During the past year these balances have aggregated in round figures from 10½ to 13½ crores of rupees, and my Committee think it worthy of the most careful consideration of the Finance Minister whether this enormous amount of money could not be made available for the purposes of trade, and thereby indirectly for the benefit of the country at large

2 In England, by the mode of finance adopted by the Government, the balances at the disposal of the Treasury are made available for trade purposes through the

Bank of England, and it seems to my Committee that a considerable portion of this country's funds might equally be utilized if arrangements were made to that end. No doubt a large floating balance is required for public purposes, but if the managements of the three Presidency Banks were consulted they would probably be able to indicate some means by which the trade and commerce of the country could have the benefit, during a portion of the year at least, of the at present unemployed Treasury balances

No 4972, dated 8th September 1888

From—The Offg Secretary to the Government of India, DEPARTMENT OF FINANCE AND COMMERCE

To—The Secretary to the Chamber of Commerce, Bombay

I am directed to acknowledge receipt of your letter of 9th August regarding the withdrawal of money in July from the Bank of Bombay to the Reserve Treasury

2 It is observed that your letter raises the general question of the extent to which the Government balances should be placed in deposit at the Presidency Banks. A definite policy in this matter was laid down at the time when the Presidency Banks Act of 1876 was under discussion, and nothing has since occurred to disturb the foundations on which it rests. The following extracts from documents of that date will explain it to the Chamber of Commerce

*Extract paragraphs 7, 8, and 9, from a Despatch from the Government of India (in the Financial Department), to Her Majesty's Secretary of State for India—No 256, dated 30th June 1874*

*Paragraph 7*—We think it doubtful, moreover, whether it is any real advantage to trade that large Government balances should be kept in the hands of the Banks. It appears to us that an element of uncertainty is thereby introduced into the money market not unlikely to aggravate commercial difficulties at a time of tightness

8 An amount of capital, which is large relatively to the whole capital engaged in trade at the Presidency towns, is supplied by Government, but Government for reasons quite unconnected with trade, may have to withdraw these balances suddenly

In this case a sudden demand ensues for capital to replace that which is thus removed, the rate of discount rises, not from any commercial reason, but from the accident of State necessities, and, if this should occur at a time of commercial pressure, it would precipitate a crisis which otherwise might not occur. If Government did not supply this capital to the trade, it would be found by private individuals through banks or in some other way.

9 Had the Government funds in the hands of the Banks in January last been limited to a fair working balance, and had we had a reserve in our own hands, we think it may be assumed that the market rise in the rates of discount which has occurred would not have taken place, and our business would have been transacted without disturbing trade operations

*Extract paragraph 13 from a Despatch from the Secretary of State for India, to the Government of India—No 225, dated 6th May 1875*

*Paragraph 13*—The time has come when her Majesty's Government must consider how far these relations shall continue. Originally they were probably devised to provide banking facilities for the commerce of the country, which it would have been otherwise unable to procure. The development of trade has lessened the cogency of this reason, and I agree with Your Excellency in the doubts you express as to the real value of artificial facilities which arise from large Government balances with the Banks. Capital supplied by Government, and not representing the savings of the community, is a resource on whose permanence no reliance can be placed, and which therefore tends to lead traders into dangerous commitments. It gives ease for a time, and produces a prosperity which is at the mercy of an accident. A political exigency suddenly withdraws the adventitious resource, and the commerce which trusted to it finds itself pledged beyond what its own resources can make good

*Extract from the HON'BLE SIR W. MUIE'S Speech in the Legislative Council, dated the 14th December 1875*

Further, it was urged that the necessity for connection with the State no longer existed. It might have been expedient, or even indispensable, in the poverty of mercantile resources at the beginning of the century, to support the credit of the Bank by Government capital and direction. But this had long ceased to be the case, and there were now abundant materials, altogether apart from the State, for banking upon a secure and independent basis

*Extract from the HON'BLE MR BULLEN SMITH'S Speech in the Legislative Council, dated the 14th December 1875*

Although he (Mr Bullen Smith) conceived there might be difference of opinion as to whether or not there did exist at the present time a real necessity for the severance of that connection which had so long and with such great advantage subsisted between the Government and these Banks, yet he was for his part somewhat careless to enquire as to the precise need for that severance. The Banks had derived great advantage from that connection in times past, but he thought the moral support which the Government lent to the Banks, besides its material support, was now no longer required. He thought these institutions were now in a position to go on alone, which they were not at the time of their original establishment, and that support which was in the early days almost necessary was now no longer required

3 The policy thus laid down the Government of India cannot consider to be open to discussion. The Government cannot in its own interests revert to the system

by which its use of its own balances was dependent upon the policy of the Directors of the Presidency Banks, based as it necessarily was upon commercial necessities, and not upon anticipations of State demand. Nor is it, in the opinion of the Governor-General in Council, advisable, in the interests of the commercial public, that the state of the money market should be subject to the violent fluctuations and the entire dependence upon Government operations, which would be the result of placing the entire Government balances at the disposal of the Presidency Banks.

4 The figures of your letter, I am, to remark, give a somewhat erroneous impression of the amount of money which could under any circumstances be placed at the disposal of trade. A reference to paragraph 156 of the last Financial statement will shew that the 10½ crores (the real figure was under 10,30 lakhs) afforded very little margin over the amount necessary to carry on the Treasury business of the country. In fact, at the

Head Offices and Branches		Rs
Bank of Bengal	- - -	1,72,54,000
„ Bombay	- - -	71,84,000
„ Madras	- - -	89,80,000
		<u>2,83,68,000</u>

time when that balance was recorded, the balance in the reserve treasuries amounted to 83 lakhs only, and this is therefore the only addition which, on the policy proposed by the Chamber, could at that time have been made, to the amounts, stated in the margin, which under existing arrangements were available for the purposes of trade.

5 The example of the Home Government, which is quoted in your letter, is for more than one reason entirely inapplicable to India. In the first place, the Government balances in England are not liable to the great fluctuations which arise in this country from the fact that the revenue is most unequally distributed over the year, and, in the second place, the Government balances in England are an item that disappears in the general account of available resources, while in India they amount to considerably more than half of the available cash of the Presidency Banks. When the Government in England obtains assistance from the money market, the transaction is a mere ripple on the surface of the commercial world, when the Government of India makes a similar appeal, the transaction is one which, as your letter shews, dominates the whole condition of the money market, notwithstanding the fact that six weeks' notice of the demand has been given.

6 With these observations on the question of general policy, I am now to refer to the transactions of last July. The arrangements of Government at the time of raising a loan are devised for the express purpose of enabling the demand to fall easily upon the money market. Ample notice is given, and the instalments are spread over two or three months. The interests of Government are the same as the interests of those who finance its loans, and the Government has always been careful that no pressure on its part shall affect the facility with which the money is raised. The Chamber are doubtless aware that there is a stipulated maximum fixed for the Government balances, which in the case of the Bank of Bombay is 50 lakhs, but the Government balances at the Banks are necessarily swollen by the loan operations, and the practice of Government has been to let the Banks retain as much in excess of the stipulated maximum as they desired, provided they paid interest upon it. The fairness of this condition is obvious, the money is wanted for advances on the new paper, which money the allottees in their turn pay into the Government account. The Banks cannot reasonably claim—neither have they on previous occasions claimed—that the Government should, while it is itself paying interests to the allottees, lend the Banks the same money without interest, in order that they may use it to make advances at interest to the allottees, and it is obvious that so long as the Government offers to advance its money at the Bank's minimum rate, it cannot be charged with any action tending to raise that minimum rate.

7. The Chamber of Commerce seem to have been wrongly informed as to the facts of the present case, for the Government on this, as on former occasions, have acted throughout in concert with the Presidency Bank. From July 6th to 10th the Government balances were increased by payments on account of the loans from 77 to 229 lakhs. Next day—that is, on 11th July—the Secretary of the Bank wrote to the Accountant-General with the object of retaining this balance for a time, as, according to ordinary practice, he expected to be called upon to reduce it. The Accountant-General replied by stating that he proposed to make considerable withdrawals, but that, if the Bank desired to retain an excess over 70 lakhs, it could do so by paying interest on the amount according to previous practice. Finally, at the desire of the Bank, which did not wish to hold money at interest, another arrangement was substituted, which provided for the withdrawal of the money during the three weeks from 14th July to 4th August. The Accountant-General accepted the proposal which the Bank put forward in this respect, making in it one modification only—namely, that he took on 14th July 140 lakhs instead of one crore, but as he at the same time placed 20 lakhs at the Bank's call at the Reserve Treasury, he practically withdrew only 20 lakhs more than the Bank offered.

8 It will, no doubt, be admitted that these transactions are somewhat inaccurately described in the Chamber's letter, which says that—

Without any preliminary notice, the Government withdrew from the Bank the sum of about 1½ crores of rupees during the week ending 28th ultimo, thereby creating an unexpected pressure, and an advance in the rate of discount of about 2 per cent

9 The circumstances were certainly very unusual under which over two crores of the loan was paid up in Bombay by the date of the first instalment, and it is not surprising that a temporary difficulty should have arisen from them. For these circumstances the Government is in no way responsible, but the task of getting out of the difficult position thus created fell upon the Accountant-General and the Bank of Bombay. With the action of the latter the Government is not at present concerned, but the mere facts that the Bank's minimum rate never stood in danger of being raised; that the Government balance from the 7th till the end of the month never went below 75 lakhs, though the fixed maximum is 50 only, and that the Bank did not find it necessary to borrow the money offered it by the Accountant-General, are evidence of the carefulness with which the Accountant-General resumed for the Government the control over its own balances. The fact that the Chamber assign to the withdrawal of the 1½ crores, a date which is a fortnight later than that of its actual occurrence would seem to show that it did not make itself manifest by any sudden stringency in the money market.

10 The reference in your letter to an advance of about 2 per cent in the rate of discount is not understood. The Bank's minimum rate has been steady at 4 per cent from the commencement of July till now. If the Chamber's letter implies that large advances were being made at 2 per cent, while the Directors of the Bank of Bombay maintained the official rate at 4 per cent, then there is ample reason to think that the withdrawal of the Government balances was demanded just as much in the interest of the steadiness of the market as in the interest of Government, and the Government would have been justly chargeable with fostering an incipient speculation if it had departed from its prescribed methods, and left in the Bank's coffers the large sums of money, which had been collected during the month of preparation, by those who intended to subscribe to its loan. The incident, in short, is an example of the danger pointed out in the above-quoted Despatch of the Secretary of State, and furnishes an additional proof of the wisdom of the policy which has been described in the opening paragraphs of this letter.

Dated 4th October 1888

From—The Secretary to the Chamber of Commerce, Bombay.

To—The Secretary to the Government of India, DEPARTMENT OF FINANCE AND COMMERCE

I am directed by the Committee of the Chamber to acknowledge the receipt of your letter No 4972 of 8th ultimo, and in so doing to express their thanks for the detailed explanations therein given of the circumstances attending the withdrawals of the Government balances from the Bank of Bombay in July last.

2 Being dependent for their information regarding the fluctuations in the treasury balances on the weekly published statements of the Bank of Bombay, the Committee perceive that they were in error in putting the withdrawals at 150 lakhs instead of 140 lakhs, and, furthermore, that the action of the Accountant-General in making these withdrawals had not been adopted, as the outside mercantile community generally at the time believed, without some preliminary intimation to the responsible officials of the Bank. My Committee respectfully submit, however, that any misapprehension they may have inadvertently expressed on these points does not materially affect the main issue respecting which they took the liberty of addressing Government. The broad fact remains that by the withdrawals in question, and notwithstanding the precautions which Government were apparently desirous of exercising, the money market was suddenly and unexpectedly transformed from a position of exceptional quietude and ease to one of extreme stringency, and the market rate of discount was practically advanced in one day, without the preliminary indications which generally accompany such movements, from about 2 to 4 per cent per annum. Happily, as I have already had the honour to state, this unforeseen advance in the value of money was unattended as it might easily under other circumstances have been by any general disaster, but serious loss was occasioned to banking institutions and private individuals for which it is now manifest there was no occasion, and it will be in the interests of Government and tend to inspire confidence in investors if provision be made to avoid the recurrence of a similar state of affairs in connection with future loans.

3 The fact that the Bank of Bombay minimum rate remained unchanged throughout at 4 per cent is relied upon as showing that no such stringency as my Committee alleged really existed, but this view is based on the misconception—plainly stated in the tenth paragraph of your letter—that no money market exists apart from

the Bank, and to this misconception, very possibly, the conditions which led to the exceptional pressure may be entirely attributable.

4 Had Government been aware, as was the case, that money in the open market had only been worth from one-and-a-half to two per cent per annum for a month previous to the issue of the loan they would have perceived that the privilege of being allowed to pay up instalments to the loan in advance, and thereby secure 4 per cent interest, was bound to attract unusually rapid payment, and, in view of this contingency, would doubtless have instructed the Accountant-General to extend his withdrawals over a longer period.

5 The circumstances were no doubt unusual, but with a due appreciation of the true financial situation the ultimate results were certainly not improbable, and the Committee of the Chamber do not see that in making the concession which the Secretary of the Bank of Bombay at the time solicited, the Accountant-General would have been doing more than the occasion demanded. It is unquestionably to the interest of Government that subscriptions to their loans should be attended by as little risk as possible, and if by spreading the withdrawals of the unexpectedly large sum at his disposal over three weeks or a month, the Accountant-General had it in his power to obviate any adverse contingency it would have been sound policy to have conceded the arrangement. Government not having contemplated so rapid a payment of the loan could not have been in emergent want of the money, and any charge which the Bank might have been prepared to pay would have been so much profit, as it would not otherwise have been employed at interest. The transaction no doubt would, as indicated in your letter, have trespassed upon the strict letter of the prescribed relations between Government and the Presidency Bank, but the position was exceptional and might fairly, therefore, claim exceptional treatment. More my Committee would not have contended for in connection with the transaction now past, and they merely ask that similar conditions may meet with adequate consideration in the future.

6 As to the general question of the advisability or otherwise of utilising some portion of the unemployed treasury balances for trade purposes, the Committee regret that for reasons adduced the Government of India do not consider their present policy as open to discussion. I am directed to say, however, that they trust they may not be considered wanting in due respect for the decision of Her Majesty's Secretary of State for India if they point out that the financial conditions prevailing in 1874 when the basis of the Government relations with the Presidency Banks was laid down, are widely different from those at present existing, and that the opinions, expressed about the same period by the Honourable Sir W. Mun and the Honourable Mr. Bullen Smith, while sound and entitled to all consideration at the time, have now lost much of their force. Trade and industrial enterprises have undergone enormous expansion in the interval, necessitating and attracting banking facilities in proportion, so that while at certain seasons of the year there is an active demand for capital which would enable Government to obtain a remunerative return on their unemployed funds, their placing same at the disposal of a market so greatly developed in resources and extent would not be attended by the same risks as were rightly held to be involved thirteen or fourteen years ago. Nor in so doing need the existing arrangements with the Presidency Banks be materially disturbed. The Government treasury balances, the Committee understand, are as a rule at their maximum in March, April and May, which are precisely the three months in which the demands of our export trade call for the largest monetary facilities, and in consequence the highest rates of interest prevail. It seems to the Committee of the Chamber, therefore, that a considerable revenue might be earned at that period of the year by Government lending out such sums as they safely had available. Tenders might be invited from the Presidency Banks and from Exchange Banks on the security of Government paper for loans at thirty, sixty, or ninety days, in such amounts as might be convenient in the different financial cycles. The effect of making such advances would be all in favour of a steadier money market throughout the year, as on the one hand the result would be to keep the amount of the Government balances with the Presidency Banks—now an element of considerable uncertainty—at a more uniform level, while on the other, by limiting the rush of money into the country to meet the requirements of the export season, the after-collapse which usually ensues when these funds are set at liberty would be avoided.

7 Matters of detail would no doubt require to be carefully considered and worked out, but a wide-spread feeling prevails in commercial circles that some such system as that indicated would be of advantage to trade, and at the same time safe and profitable to Government, and the Committee of the Chamber respectfully suggest that the subject is of sufficient importance to warrant grave consideration.

No 234, dated 12th January 1889

From—The Offg Secretary to the Government of India, DEPARTMENT OF FINANCE AND COMMERCE

To—The Secretary, Bombay Chamber of Commerce

I am directed to acknowledge the receipt of your letter of the 4th October 1888 stating the views of the Chamber on the withdrawal of a portion of the Government balances last July from the Bank of Bombay, and on the policy of Government in dealing with its cash balances in the public treasury

2 As regards the withdrawals from the Bank, the Chamber will see from the letter addressed this day to the Bank (copy enclosed) that the Government of India approves the proceedings of the Accountant-General on that occasion, and does not consider it desirable to prolong the discussion of the circumstances which gave rise to the present correspondence

3 As regards the views expressed by the Chamber on the policy pursued by the Government in dealing with the Treasury balances and the proposal that the balances should be made available for purposes of trade, I am to invite the attention of the Chamber to the paper by Mr J Westland, of which a copy is annexed to this letter, in which he sets forth at length the sums actually maintained in the treasuries, the nature and extent of the claims upon them, and the method in which the transactions of the treasury are conducted. The Governor-General in Council hopes that the facts stated in this paper will convince the Chamber that the Government does not maintain balances in excess of actual requirements, and that the method of dealing with those balances is sound. His Excellency in Council is satisfied that no substantial change in either of these respects is called for, and that no such change could be adopted consistently with the pursuit of a prudent policy in meeting the requirements of the State

4 The Chamber will observe from the letter addressed to the Bank of Bombay that the Government of India does not see its way to comply with the desire expressed both by the Bank and the Chamber that the Treasury balances should be used, in a larger degree than at present, to facilitate trade. The Chamber's remarks contained in paragraphs 6 and 7 of the letter under reply have been carefully considered, but the Governor-General in Council finds himself unable to depart from the policy hitherto adopted. His Excellency in Council cannot agree with the Chamber that the arguments on which that policy was based in 1875 have lost their force at the present time. Trade has certainly expanded, but with its expansion banking facilities have proportionately increased, and it is less in need of State support now than in 1875. The volume of trade and the demand for money are steadier, and less liable to violent fluctuations throughout the year, than they were in past periods, and it is not necessary, therefore, to adopt special measures to prevent fluctuations which are rarer than was the case when the policy of Government was formulated

5 His Excellency in Council is, moreover, convinced that nothing but evil could result from the adoption of the suggestion that the Government should enter into competition, in making loans to the mercantile community, with the Presidency Bank. Trade should be left to depend upon its own financial resources. If advances were systematically made by Government during the busy season there would be a tendency to reduction of the working balances of the country to an unsafe minimum and the consequent risk of panic, to guard against which is an important object of the Reserve Treasuries. If advances were made at a lower rate than the published rate it would be difficult to confine the privilege of obtaining money at less than its value to the Presidency Banks, and these Banks would also be increasingly anxious to profit by such loans, and tempted to enter upon speculative operations with the resources placed at their disposal by the State, allowing their own reserves to fall below the limit of safety. The Government of India is not prepared to adopt a course which would tend to produce such results, and the deliberate conclusion of the Government, after giving the proposals of the Chamber the fullest consideration, is that any assistance in relief of the money market which may be afforded by means of the Treasury Reserve can only be made through the Bank, and at its published rate of discount, in relief of temporary stringency, and that no departure from the policy hitherto pursued can be allowed

6 I am in conclusion to invite the attention of the Chamber to paragraph 22 of Mr Westland's paper, and to say that the impression which appears to exist in some quarters that Government manipulates the Presidency Bank balances with the view of forcing a demand for Council Bills is entirely without foundation. Any such manipulation would, in the opinion of the Government of India, be unjustifiable, and would eventually, fail of its intended effect

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*Note on the management of the Government Balances*

In passing through Bombay I had a conversation with Mr Forbes Adam on the subject of the recent correspondence about Government Cash Balances, between the Bombay Bank and the Bombay Chamber of Commerce (of both of which Institutions he is President) on the one side, and the Government of India upon the other; and adopting the suggestion which he made to me, I propose to put on record this general sketch of the manner in which the Government Balances are managed

2 The leading facts upon which the regulation of these balances depends are these —

- (1) That the months of August, September, October, and November produce far less than their proper share of revenue, and that the current expenditure during them has to be met to a considerable extent by a depletion of balances,
- (2) That the minimum balance with which the Government Treasury business can be worked, that is to say, with which we can undertake to have money ready, at every treasury, to meet the demands upon us, is at least eight crores of rupees

3 The main factor in the determination of this figure of eight crores is (as it must always in such cases be) actual experience. We find, as a matter of fact, that as our balances approach a minimum of eight crores, we have to multiply very greatly the amount and rapidity of the cash remittances by which we transfer money from the treasuries at which it is received to the treasuries at which it is wanted to meet actual payments. There is a point at which it becomes more costly to make such remittances than to increase the available cash. For example, I do not say it would be actually impossible to meet the demands on our treasuries with a minimum balance of seven crores, but it is certainly the case that any attempt to work the treasuries with that balance would be accompanied with an outlay in cost of remittances that would not fall far short of the four lakhs of interest which we would have to pay if we raised another crore, in order to raise from seven to eight crores the amount at our disposal. And, besides this, there would be very great risk of our having to declare ourselves— at some of our treasuries—unable, pending the arrival of remittances, to meet our current obligations. What this would mean, apart from the discredit of it, may for a moment be glanced at. We might be unable to pay the soldiers and create serious discontent in the army, we might be unable to meet the current expenditure of working or of constructing railways, we might be obliged to stop important Public Works—an extremely costly proceeding even if they are immediately resumed.

4 This figure of eight crores might, perhaps, at first sight, seem large, but I shall state some considerations bearing upon it which will shew it to be not unreasonable. The Bank of Bengal were good enough to furnish me some time ago with an estimate of the daily amount of actual cash paid in and cash paid out at their head office in Calcutta. It amounted to about 12 lakhs each way, and to keep their position safe they ordinarily keep over a crore of rupees in available cash, that is, an amount exceeding eight days transactions. Now, the daily cash receipts and disbursements at the Government Treasuries amount to about 50 lakhs each, so that if we have a balance of eight crores we have only sixteen days' payments and receipts in hand. If the Bank finds it necessary to keep eight days in hand, in the case where all the receipts and payments occur in a single office, it may fairly be said that sixteen days is a somewhat narrow limit for a case in which the transactions are spread over 200 treasuries and 800 sub-treasuries, and in which the circumstances are such that the receipts often come in at treasuries very far removed from those at which the expenditure has to be met.

5 The manner in which the balances are distributed is arranged with the object of working the treasuries with the smallest possible amount. They are distributed into nine groups, coterminous with the nine Provinces of account, and each group is under the regulation of its own Accountant-General. The Accountant-General, besides receiving details of his actual balances twice a month, obtains, at the beginning of each month from each Treasury, an estimate of its transactions during the current month and the two succeeding months, and thus sees in prospect what treasuries have more funds than they require and which of them require to be supplied with funds in order to meet the demands upon them. He orders remittances accordingly, and such funds as are not required by him upon the whole account, he gathers towards a few Central Treasuries chosen with reference to their accessibility, where the surplus funds lie at the disposal of the Comptroller-General. These operations are carried out under the immediate supervision of the Comptroller-General, who exercises his supervision in this way. He receives from each Accountant-General, in October, an estimate showing the minimum balance he requires for the



service of his province on the first of each month, this minimum is by this time pretty well ascertained by experience. Guiding himself by this and by the monthly estimates above alluded to, which are consolidated and sent to him, he sees what provinces, from time to time, have surplus funds available, and in what provinces these surplus funds are required for expenditure. Such provinces as the Punjab and Burma are continually demanding funds to meet their heavy military expenditure, and the Comptroller-General has also to lay down funds to meet the demands at the presidency towns on account of Council Bills, Interest, Railway payments, &c. The Comptroller-General is thus directly interested in keeping the Provincial Balances at as low a point as possible. He may not actually, at each moment, concentrate his available funds at Calcutta and Bombay. He may, for example, leave them at the Central Treasuries of the Accountants-General, because he may see that if he took them away he would shortly have to send them back, and he may not find, in any commercial demand, the means of moving them without actual specie remittance. But whether actually moved or not, they are part of his available resources, and are at places whence they can be sent at very short notice to any spot where they are required.

6 This, therefore, is the general system of the management of the balances, devised; it will be seen, for the express purpose of enabling the Comptroller-General to carry his available resources, as far as possible, towards meeting the demands on the treasuries. It remains to add, in further explanation of the carefulness of management required at the hands of the Comptroller-General by the limitation of the funds at his disposal, that each month he gathers together the estimates of the various Accountants-General (to which allusion has already been made), and after careful collation of them, prepares a review which is laid before the Government each month, and which sets forth in detail the various demands which the Comptroller-General has to meet during the current and two succeeding months, and forecasts the plans, so far as relates to movements of funds, by which he proposes to meet them. Movement of funds is in itself, I may remark, a business of some complication, because it includes not only movements of actual specie but also consideration of mercantile and banking business, a class of remittance which of course we substitute, as far as possible, for specie remittance, whenever it is available.

7 I have thought it advisable to mention all this detail of management in order to shew that it is with some confidence that we set down as our practicable minimum the balance of eight crores at which we find by experience that we begin to be doubtful as to the possibility of moving our available funds to the points where they are required to meet expenditure. I may allude, before I go further, to two devices by which we call in the aid of our currency reserves in order to make this eight crores go further than of itself it would. Our normal currency reserve of coin we may put down at six crores of rupees. This amount is, of course, by law, sacred to the purpose of supporting the currency circulation, we cannot apply it to any treasury purpose. At the same time, it is vastly more than in ordinary times is necessary for the purpose of actual encashment of notes. It is scattered over the various places from which we are by law authorized to issue notes. One perfectly legitimate operation of which we take great advantage is that we depend upon this currency reserve for facilities of rapid remittance. For example, we can make a remittance of, say, 20 lakhs, at a moment's notice, from Calcutta to Lahore, by simply paying in 20 lakhs to Currency Office at Calcutta, and obtaining at the Currency Office an order upon the Lahore Currency for 20 lakhs to be paid to treasury there. I think it is not too much to estimate this facility of remittance at a crore of rupees, that is to say, a balance of eight crores, with this facility of remittance through currency, goes quite as far towards meeting our liabilities, as a balance of nine crores would without this facility. I may further mention in this connection the utilization of the currency reserve at Rangoon for keeping, from one busy commercial season to another, the large supplies of silver which are required for the rice trade, and which used to a large extent to be sent down by the Banks by specie remittance from Calcutta before each rice season, and brought back after it. The other way in which the currency balance helps us is a comparatively unimportant one, but still it does give us some small assistance. One of the liabilities we undertake with our treasury balances—in addition to that of meeting our payments—is that of supplying both ourselves and the public generally with small coin and as we must always have a considerable stock of small coin in hand, the reserves of this stock are practically an inefficient balance. That is, part of our eight crores consists of this class of coin, and cannot be considered available for the general purposes of a cash balance. So far as copper coin is concerned this is a weight we must bear, but it is not an appreciable one. So far, however, as small silver is concerned, we can transfer the burden to the currency reserve. Silver bullion is a form in which it is quite lawful to hold currency reserve, and if we possess a reserve stock of ten lakhs, say, of small silver, we can keep it as part of our currency reserve, and thus have the full use

of our supposed cash balance of eight crores, instead of having ten lakhs of it locked up in the unavailable form of small silver coin

8 I think, therefore, I may legitimately contend that the fact that we require a minimum of eight crores for the purpose of conducting the treasury business arises from the actual necessities of the business, and not from any want of efficiency or attention in the conducting of it. And if the demands be measured, even in the roughest way, by the number of places where funds have to be provided, eight crores will seem a small sum to cover them all. For the three presidency towns alone the Government balances at the Banks require at least 125 to 150 lakhs, and it must be remembered that the minimum period of December is that at which trade is reviving, and the Secretary of State beginning to increase his drawings to 50 lakhs a week. Rangoon, Allahabad, and Lahore are all headquarters of provinces, where the Accountant-General must not be left without a fair reserve wherewith to support the 40 treasuries he has to supply, there are distant treasuries like Quetta and Aden, where expenditure is heavy, and which must be made independent of external aid. There are first class military stations like Peshawar, Lahore, Multan, Rawalpindi, Umballa, and Delhi (not to go beyond the limits of a single province), where the expenditure of the first few days of the month is measured by lakhs of rupees. There is Upper Burma, a country where the heavy expenditure of a military occupation has to be met, and where the means of communication are as yet so imperfect as to necessitate each treasury being made almost independent of its neighbours. Small amounts at each treasury, which come to a considerable amount on the whole, are required to give to the public, as far as possible, facilities for obtaining and exchanging small coin and currency notes, and it may be mentioned that, for the convenience of the public, we receive foreign-circle notes freely in payment of revenue, which necessarily to some extent locks up for the time a part of our funds. The working out of the detail of the distribution will thus be found to mount up very rapidly towards the allotted total.

9 Above all, there is the consideration that the treasury must, outside the Presidency towns, absolutely depend upon its own resources, and that there is no reserve of any kind upon which it may fall back, if it is itself depleted.

10 It must be understood that this eight crores, of which I have been writing, is a practically irreducible minimum, it is not the actual balance with which we can, as a matter of system, carry on the treasury work. On the contrary, it represents a state of strain which can be maintained for a time, but which implies a certain expenditure in remittance, and a certain incurring of risk. It is a condition of things which we can afford to stand for a month or so, when we know that mere efflux of time will bring a speedy recovery, but which would be intolerable, and probably somewhat expensive, if we were obliged to accept it from year's end to year's end as the normal condition of the management of business. To represent the permanently possible condition, we must first of all give ourselves a margin of 20 per cent beyond the eight crores, and put down about 960 lakhs of rupees as ordinarily absorbed in the actual meeting of demands upon the treasuries. Though it is possible occasionally to work down to 800 lakhs, it is unwise to attempt to do so, if we have 960 available, that is, out of our total treasury balance at any time 960 lakhs must necessarily be scattered over the various treasuries where payments have to be made. But even this is not enough during the months when the revenue is in active collection, for the revenue then collected necessarily largely increases the balances of the treasuries until such time as it can be carried away to the places—often at a considerable distance—where it is required for payments. A notable instance of this occurs at the end of March in Bengal. Bengal ordinarily can be easily worked with a balance of 120 lakhs at the outside (of which 10 to 15 are in the Bank of Bengal). But the Accountant-General has to lay down very heavy balances at the end of the month in the Behar treasuries in order to meet the large opium payments which then begin. He completes this operation, say about 20th or 25th of March, and as soon as he has done so, he receives at the treasuries in Lower Bengal the March instalments of land revenue. About a crore of rupees are paid in on 26th, 27th, and 28th of March. The consequence of these two operations—which it is not possible to fit into each other, as the money is required to be laid down in the western treasuries before it can be sent from the eastern—is that Bengal always ends the month of March with a balance considerably in excess of 200 lakhs.

11 On the whole, therefore, the really practicable working balance, except at the minimum period of the year when little revenue is coming in, may be put down at at least 1,000 lakhs, and it is only the excess over that amount that can be regarded as held by the Comptroller-General in reserve, mostly in the reserve treasuries, but partly also in those "central treasuries" where the Accountants-General may, as explained in paragraph 5 above, place their surplus funds to await the orders of the

Comptroller-General The following figures show, for the past 24 months, the whole Treasury balance, divided into—

- (1) the amount held in Reserve Treasuries,  
(2) the amount held in all other Treasuries

Last Day of	1886-87			1887-88		
	Reserve	Other	Total	Reserve	Other	Total
October - - -	1,31	9,41	10,72	1,51	8,87	10,38
November - - -	89	9,42	10,31	1,71	8,85	10,56
December - - -	58	10,09	10,67	83	9,47	10,30
January - - -	1,03	10,96	11,99	1,59	11,63	13,22
February - - -	77	11,24	12,01	1,43	11,79	13,22
March - - -	51	12,68*	13,19	72	13,16*	13,88
April - - -	69	10,38	11,07	1,42	10,70	12,12
May - - -	95	9,75	10,70	1,00	10,81	11,81
June - - -	1,25	10,78	12,03	1,05	12,45	13,50
July - - -	1,07	10,26	11,33	3,65	11,76	15,41
August - - -	2,09	9,74	11,83	2,80	10,48	13,28
September - - -	1,88	8,90	10,78	2,30	10,48	12,78

\* The explanation of the especially high figure of 31st March lies in the circumstances of Bengal just mentioned

12 I stop for a moment to note upon the apparent irregularity of these figures. They would seem at first sight to be subject to no particular law, but this circumstance arises out of two sets of transactions *only*, namely, the rate at which the Bills of the Secretary of State are paid, and the rate at which loan receipts are paid in. The following are, in lakhs, the transactions of each of the above 24 months, divided under three heads —

1886 and 1887	Council Bills	Loans	Other transactions	Council Bills	Loans	Other transactions
October - - -	- 38	+ 33	- 86	- 98	+ 43	+ 15
November - - -	- 1,14	+ 22	+ 51	- 82	+ 7	+ 93
December - - -	- 1,42	- 2	+ 1,80	- 1,88	-	+ 1,62
January - - -	- 2,57	-	+ 3,89	1,95	-	+ 4,87
February - - -	- 1,77	-	+ 1,79	- 2,05	-	+ 2,05
March - - -	- 2,27	-	+ 3,46	- 2,26	-	+ 2,93
April - - -	- 2,72	+ 32	+ 23	- 2,09	-	+ 32
May - - -	- 1,95	+ 51	+ 1,07	- 2,28	-	+ 1,98
June - - -	- 1,58	+ 52	+ 2,38	- 1,33	-	+ 3,02
July - - -	- 1,50	+ 67	+ 13	- 1,56	+ 2,88	+ 59
August - - -	- 1,66	+ 2,49	- 33	- 1,33	+ 12	- 92
September - - -	- 1,11	+ 49	- 43	- 1,03	-	+ 47

13 Now it will be seen that although there is considerable irregularity under the first two heads (Secretary of State's Bills and Loans), there is no very great diversity (considering the vastness of our transactions) under the last or residuary head. In other words, if our balances were not affected by variety in the amount paid out on account of Secretary of State's Bills, and of the amounts paid in on account of loans, they would show, year after year, very much the same details of variation. The minimum period is, as I have already stated, the month of December. The large Revenue receipts of the next few months cause the balance to increase considerably up till June, notwithstanding that this is the heavy period of the Secretary of State's drawings. After remaining stationary for a month or two, the balance runs down very rapidly in September, October, and November, in which months the amount of revenue received is very small. It is during, or about, these latter months that we usually arrange to receive the money we raise by debt, partly because they are the months in which the money market finds it easiest to supply our demand, and partly because it is the time when the money most conveniently reaches us with reference

to Treasury requirements, that is, it comes in, not in supplement of a large balance already held, but so as to prevent our balances falling too low for our necessities.

14 The amount of the loan is carefully calculated beforehand, upon a forecast of the monthly balances, so as to give in the amount necessary to tide over December with our minimum of eight crores or a little more. If we do not, as a matter of fact, get down to that figure, or nearly so, it is usually because the Secretary of State has not succeeded in placing his bills to the extent he hoped. The remittance of 15 millions sterling to England is a very large and important operation, in which it is necessary to allow a very considerable amount of latitude, and it would be grievous mismanagement if, when the Secretary of State was finding a market for his Bills, we were obliged to tell him that our balances were so weak that he must reduce his drawings. We must, therefore, be careful not to underestimate his demands, or in other words, we not unfrequently find that his drawings are a crore or two behind our estimates, and that in consequence we are, as a matter of fact, left in December with a balance of a crore or two in excess of the minimum down to which we can work.

15 Reverting now to the figures given in paragraph 11 above, I think it will be admitted that the Bombay Chamber of Commerce state the problem wrongly when they describe the Government balances in their letter of 9th August 1888 as 10½ to 13½ crores of "large unemployed balances," and enquire whether "this enormous amount of money could not be made available for the purposes of trade." I have shown that of this amount about 10 crores cannot in any sense be described as lying idle, but is actually required to support the treasury business of the country. I shall presently examine the question whether the amount can be ever described as "unavailable for the purposes of trade," but as the Chamber's reference was mainly to trade at the Presidency towns, it is sufficient to point out at present that the only amount that can be made available for such purposes is the amount lying in the reserve treasuries, which, except immediately after the receipt of loans, rarely exceeds 200 lakhs, and is ordinarily considerably less than that figure. The money in the "Central Treasuries" (paragraph 5) cannot be made available at Presidency Towns, as, if it is kept in the Central Treasuries, it is so kept on the ground that it is likely to be required up-country, and it would never be worth while to send it on a journey of some hundreds of miles only to be sent back again after a short time. Besides, as will presently be mentioned, many of these Central Treasuries are at branches of Presidency Banks, so that the Banks already have the employment of the money so long as it is not required for Treasury purposes.

16 The question raised by the Chamber is, therefore, narrowed to the question whether Government should lend out, for commercial purposes, the balances held in the Reserve Treasuries at the Presidency Towns. And if I rightly understand their letter of 4th October, this is the form to which their proposal is actually reduced, namely, that during the months of March, April, and May, the balances which are so held might be lent out for commercial use. I do not consider it necessary or desirable that I should in this place enter upon any discussion of this question, it will receive the full consideration due to a proposal emanating from such a body as the Bombay Chamber of Commerce. The object of my paper is merely to remove the misconceptions which seem to me to have hitherto surrounded the subject, to set forth in a clear light what is possible and what is not possible, and to define more accurately the issue which arises out of the present correspondence.

17 I come back now to the question of our 10 crores of actual working balance. Are the Chamber of Commerce right in describing this balance as "unemployed," and as "not available for the purposes of trade." I am afraid I must directly traverse this statement.

18 In the first place, a very considerable share of the 10 crores is placed directly at the disposal of trade through the system of Presidency Banks. The actual statistics show that during the last two years the amount of Public Deposits in the Presidency Banks and their branches has fluctuated between 262 lakhs and 390 lakhs, and this is almost entirely supplied out of our 10 crores of Cash Balances. At the three Head Offices the Government Balances have not, since December 1885, been below 130 lakhs, and they have often been much higher than 150.

19 Of the District Treasuries, the largest and most important are at the places where there are Bank Agencies, and at these places the whole of the Government Balances are made available for trade through the agency of the Banks. Nor is there any limit to the amount of balances which may be thus placed except that which is imposed by the action of the Banks themselves. That is, whenever any of the Presidency Banks finds it worth its while to establish an agency at any place where there is a District Treasury, the balance at the District Treasury would almost, as a matter of course, be made over to its custody. In other words, wherever there is trade sufficient to avail itself, under the Presidency Banks system, of the local Government Balance, there the local Government Balance is placed at the disposal of the trade.

20 Another method by which the Government Balances are made available for purposes of trade is, that they are by the officers of the Government made available

for purposes of remittance. Indeed, it is not too much to say that the whole of the system of inland trade remittance is supported by and carried on through the Government Balances. Of the extent to which this is done I believe few persons have any cognisance, and I therefore attach a report of my own written in 1883, in which the subject is generally reviewed. As I am writing mainly with reference to the representations of the Bombay Chamber of Commerce, I may take the opportunity of adding, by way of completing the subject, that a very important series of remittances—those connected with the financing of the Bombay cotton trade—is carried on through the Bear Treasuries, but is not noted in the enclosed paper, as these Treasuries lie outside the system of Government Treasuries proper.

21. I trust that the explanations I have given will cause the Chamber of Commerce to change its opinion about the 10 or 13 crores of money which they have hitherto considered to be lying idle, so far as the needs of trade are concerned. We may fairly claim that we do—perhaps not all we might do, but still—a very great deal towards making our balances available for the purposes of commerce. Their first purpose, it must be remembered, is that of supporting the actual treasury transactions of the Government, and we do our best consistently with the primary purpose, towards making them facilitate the commercial transactions of the country.

22. Before I conclude this paper I would make a few remarks upon an accusation which I have over and over again seen brought against us, of manipulating our Presidency Bank Balances with the view of forcing a demand for Council Bills. Having had the direct management of these matters for five years, I can say that, though the statement was repeatedly made during that time, it was in no instance true. In the first place, I do not believe that any such manipulation would, in the long run, succeed. We have it, indeed, in our power to tighten money by ordering large withdrawals to reserve, but as the money will have to go back sooner or later, we shall lose as much advantage when we return it, as we have gained by withdrawing it. In the second place, I have a great belief in the mischievousness of all artificial manipulations of the balances available for trade, that is, any variations which are not

\* On this ground I disagree in the Bank of Bombay's proposal that we should receive loan money only on the days fixed for the instalments. The duty of Government is to make the operation as elastic as possible, and to leave to ordinary trade channels the adjustment of the Government demand to the conditions of the market. I feel sure that the Bank's suggestion would not be acceptable to those who finance our loans. Nor is it in conformity with the usual practice in raising capital in London.

the direct outcome of trade action I believe to be directly dangerous. Why it should be imagined that a state of things which is dangerous or inconvenient to trade is profitable to Government I fail to perceive. My endeavour has therefore always been to keep the Government Balances at the Bank at as nearly one level as possible. The action of Government

is usually confined to feeding the Bank with money to meet the local demands on the Government account, and my action in the matter in question has usually been directed towards feeding it so as on the whole to preserve, at as steady a level as possible, the balance at the credit of the Government account.

23. The real explanation of the features which give rise to the accusation is almost amusing in the proof it affords of the way in which evidence may be twisted from its real bearing. Just before the Bank's statement has been published we have received, say, forty lakhs of opium revenue, for the financing of the opium trade in Calcutta, accumulated as it is towards one short part of each month, causes nearly every month a violent fluctuation of this kind in the Government Balance, and any attempt to level down the fluctuation thus caused would give a violent wrench to the market under the appearance of maintaining a uniform level. There is, however, an active demand for Bills, perhaps forty lakhs come out in one mail, and are paid by the Bank of Bengal, the obvious result is that unless other transactions compensate for this withdrawal the "Public Deposits" are reduced by forty lakhs. The next weekly account of the Bank appears, and it is immediately asserted that "Government has withdrawn forty lakhs," and Government is severely condemned for withdrawing so large a sum from a market hungry for money. The truth, however, it will be seen, is exactly the opposite. The forty lakhs which came in one way have now passed out in another way from the balance of the Government to feed the demands of the market, and the reduction in the Government Balance is a sign that the money market is being relieved by the regular course of transactions, and not that it is being tightened. I have once or twice given this simple explanation in the public press, but without much avail, for I find that Government is still occasionally charged with "withdrawing its balances," when all it has done is that it has been paying out money in satisfaction of the bills drawn by the Secretary of State in favour of merchants and bankers in India.

J WESTLAND.

20th November 1888.

E J SINKINSON,  
Offg Secretary to the Government of India

*Extract from Financial Statement of the Government of India, 1889-90*

105 The present year has seen a great scarcity of money in the Indian markets, which has kept the Bank rate at 12 per cent for a considerable period, and as usually happens in such cases in this country, the question has been raised whether Government might not in some way come to the assistance of trade

The scarcity is no doubt owing in part to an early cotton season in Bombay coinciding with a demand for rice in Burma, and other customary requirements at this season, but the root of the difficulty appears to be the doubtful position of silver. But for this it seems inexplicable that for week after week there should be a difference of 9 per cent in the rate of money in London and India, and yet that in some weeks the whole amount of bills and transfers offered by the Secretary of State should not be taken up

106 That so high a rate of interest is prejudicial to trade is obvious, and Government has not been unmindful of the fact. The best way in which Government can assist trade is by providing that the Secretary of State's drawings shall never be curtailed for lack of money to meet them, and in one week demands for bills and telegraph transfers exceeded 77 lakhs. Arrangements are also made to grant telegraph transfers freely at a small charge between the three Presidency towns, and Government, besides keeping up the normal current balances, has further been able to offer to the Presidency Banks at Calcutta and Bombay temporary loans at their own minimum rate of interest, if they cared to avail themselves of the offer

107 As the Treasury balances are nearly two crores below last year, and in fact lower than they have been for twenty years at this season, all this would scarcely have been possible without the assistance derived from what are called "currency transfers," a system which, while preserving the Reserve of the Paper Currency Department intact for the payment of the currency notes, yet gives the advantage of a large balance that can be made available without the delay of actual remittance, wherever it may be wanted. Thus in the present month the accruing revenue of the opium districts has been allowed to remain in those districts in the charge of a currency agency, an equivalent being immediately released to the Treasury in Calcutta, a fortnight hence this money will be wanted for payments to opium cultivators in the districts, but by that time the Land Revenue from Eastern Bengal will have been received, and, being in like manner made over to the Currency Department, will liberate the coin where it is wanted

108 The charge that Government does not do all it might to assist trade sometimes takes the form of an assertion that the currency balances should be lent out in a time of pressure. This is, of course, impossible, as the currency balances are pledged by law to secure the convertibility of the currency notes, and can no more be lent to the market than can the gold in the Issue Department of the Bank of England

109 Another contention is, that the cash balance of the Government of India is too high. Now the question whether the Government cash balance is too high or too low, is one that must be determined by the experience of those who actually deal with that balance, and are responsible for seeing that there is sufficient money in the Treasury to meet all the claims against Government

I do not think I exaggerate when I say that every person who has experience of the actual work of dealing with the balances in this country is in favour of rather a high cash balance. The question has been frequently considered both in India and in England, and though a cash balance of 10 to 13 crores may seem enormous, yet if we reflect on the special difficulties in the way of suddenly obtaining a large amount of cash in this country, on the sudden and large demands to which Government is exposed, and on the enormous extent of country over which the balance has to be spread, it will easily be recognised that the mere fact of the cash balance being large is no proof that it is larger than is required by the wants of the case

Some authorities hold that, if anything, the Indian cash balance has been kept somewhat too low in recent years. In that opinion I am inclined to concur. The cash balance of recent years has been low because the claims against the Government were heavy owing to expenditure of all kinds, and it was thought desirable to avoid borrowing more than was absolutely necessary

110 I have mentioned the allegations, (1) that Government ought to lend out the currency balance, and (2) that Government keeps too high a cash balance simply in order to clear the ground. There is no force in them, and they could only be made by persons ignorant of the facts of the case. I now come to what is the real question, namely, the expediency of the maintenance of the Reserve Treasuries in the Presidency towns. Should the Government keep the whole of its spare cash in the Presidency Banks, or should it aim at keeping balances of tolerably constant amounts in those banks, the surplus being kept in the Reserve Treasuries? This is a question which deserves consideration, and on which there may reasonably be a

difference of opinion, though I can hold out no hope of any change in the policy of Government in this respect

The justification for the existence of the Reserve Treasuries is to be found in the special conditions affecting the Indian money market. These special conditions are the liability of that market to extreme pressure at times, the difficulty in adding temporarily to the amount of cash by drawing on other markets, and the magnitude of the cash transactions of the Government as compared with those of the trade. Under the circumstances I have just stated, and looking to the fact that the Government in case of war, famine, or other unexpected cause, is exposed to the risk of having to meet sudden and large demands on it for cash, it was decided by Lord Northbrook's Government that it would be to the interest both of the commercial public and the Government of India that the surplus cash, for the time being, of the Government of India in excess of certain regulated balances in the Presidency Banks and the cash in Mofussil Treasuries, should be kept in Reserve Treasuries.

It was held that, if the whole of the surplus cash was kept in the Presidency Banks, trade would rely on the permanence of the resources thus supplied to it, and that, in case of a sudden demand for cash, the Government of India would either be forced to abandon its right to reduce its balance in the Presidency Banks, or risk producing a financial crisis by suddenly and largely reducing the resources of these Banks.

To show that this is not an imaginary fear, I will quote a telegram received in 1874 from the Government of Bombay

"Clear the line. You are placing the exchange banks and trade of Bombay in great danger. The eight Exchange Banks are indebted to the Bank of Bombay 68 lakhs of rupees, half payable on demand secured by Government paper, and remainder in February. Their balances for current purposes in the Bank of Bombay are under 20 lakhs of rupees, balance of other customers of Bank of Bombay exceedingly low. Bank of Bombay has to meet Council Bills for 25 lakhs of rupees arrived from England this morning, and similar Bills for 20 lakhs of rupees will shortly arrive. Bills on Calcutta absolutely unobtainable. If you draw more on Bank of Bombay, they must call in sums due from the Exchange Banks, and there will be a general panic and a serious danger of stoppages."

There was at that time a Government balance of about 100 lakhs in the Bank of Bombay, and the proposed withdrawal, which called forth this startling protest from the Governor of that Province, only came to 35 lakhs. I do not think a stronger argument could be produced to show the dangers that might arise if the Government of India reverted to the old system of keeping all its spare cash in the Presidency Banks. The arguments which weighed with the Government of India in introducing the system of Reserve Treasuries are contained in a Despatch to the Secretary of State, No 256, dated 30th June 1874\*, it has been printed in the Appendix to this Statement. It will show that the policy of the establishment of Reserve Treasuries was adopted deliberately, and in order to meet real difficulties.

111 It has been urged that Government could relieve the market by lending out the balance of the Reserve Treasuries on favourable terms to the Banks; but, if this course were followed, the same difficulties that arose when the Presidency Banks held the whole of the surplus balances would again occur. Trade would become accustomed to rely on the resources furnished by the Government, and at a time of pressure the withholding of the assistance usually given by Government might have a very serious effect.

Despatch from Government of India (Finance and Commerce Department), No 30,  
dated 2nd February 1899

To the Right Honourable Lord George Francis Hamilton, Her Majesty's Secretary  
of State for India.

My Lord,

We have the honour to submit, for your Lordship's consideration, the following papers relating to the use of the Government Balances in aid of banking resources in India —

- 1 Report by Finance Sub-Committee to the Committee of the Bengal Chamber of Commerce, on a proposal to make a representation to Government with the view of altering the present system of managing the Treasury Balances so as to allow of funds being placed more freely at the disposal of the public during the busy season of each year
- 2 Note by the Honourable Sir James Westland, K C S I., on the management of the Government Balances. (This is practically the same as the first part of the paper submitted to your Lordship with our Despatch No 332, dated 20th October last)

\* See page 30.

3 Proceedings of an interview on the 11th January 1899 between a deputation from the Committee of the Chamber and the Honourable Sir James Westland, K C S I, on the question of the management of Government Cash Balances

2 The whole question is sufficiently discussed in these papers and in the papers therein referred to as having been published in the *Gazette of India* of 23rd February 1889, and the proposal we would make to your Lordship is that during the months of January to May of each year, when large sums are withdrawn from the public in payment of Government revenue, it may be recognized as part of the ordinary business of management of the Treasury Balances to lend money to the Presidency Banks at one per cent less than the declared minimum rate of discount of the borrowing Bank. It is not our wish, and it might prove embarrassing in our own business, to give the Banks an open credit upon which they may operate or not as they please, but the kind of transaction admissible would be that the Banks might obtain, on the security of Government paper, loans, not less than ten lakhs of rupees on each occasion, repayable after a fixed period of one, two, or three months, but in no case later than 31st May, by which date we should again be in command of our own funds under ordinary conditions. We would not pledge ourselves to be always ready to lend, and it must be always remembered that, in the management of the public funds, the requirements of the public administration come before those of trade and commerce, but under ordinary circumstances we consider we could without difficulty spare 1½ crores of rupees during the months in question.

3 These arrangements would come within the meaning of the despatch No 225, dated 6th May 1875, of your Lordship's predecessor (see especially paragraph 17), but we consider it desirable to resubmit the case now, as it is mixed up with matters that are at present under the consideration of the Currency Commission.

4 It will be observed that the President of the Bengal Chamber of Commerce at the Conference of 11th January, expressed the opinion that advances of the kind would not be required until the Bank rate threatened to exceed 10 per cent. We would not consider it necessary to prescribe a condition of the kind, but we believe it is the case that it would not pay the Presidency Banks to take loans on the above terms unless the rate for money approached that figure and threatened to remain very high for some time.

5 We cannot say that the proposed facility for borrowing money in India would not in any way interfere with your Lordship's Council Bill operations. But as the proposed loans would be only temporary, and the money would have to be returned to the Reserve Treasury by an early date, the effect would not be a permanent one. Though it might operate to slightly diminish the demand in January and February, it would, in the same measure, increase it in April and May. On the other hand, it is to the advantage both of trade generally and through trade, of the demand for Council Bills, that the rates of discount should not be so high as they have been during the last two cold weathers, and we believe that, so far as Council Bill operations are concerned, we may count upon obtaining quite as much advantage in this way, as there may be disadvantage in meeting, in the manner proposed, part of the demand for money during the active season of foreign trade in India.

We have the honour to be,

MY LORD,

Your Lordship's most obedient, humble Servants,

CURZON OF KEDLESTON

W M A LOCKHART

J WESTLAND

M D CHALMERS

EDWIN H. H COLLEN

A C TREVOR

C M RIVAZ



Bengal Chamber of Commerce,  
Royal Exchange Building,  
Calcutta, 17th December 1898

## Memo for the Committee

## MANAGEMENT OF THE TREASURY BALANCES

I am directed by the Finance Sub-Committee to submit to the Committee of the Chamber their Report on the proposal to make a representation to Government, with the view of altering the present system of managing the Treasury Balances so as to allow of funds being placed more freely at the disposal of the public during the busy season—February to June of each year

The Finance Sub-Committee have carefully considered the file of papers sent down, and have also had before them reports of the proceedings of the Legislative Council of India in various years, from which they have been able to ascertain what action has previously been taken in regard to the matter by the representatives in the Council of the Mercantile Community. They have noted from these proceedings that Sir David Barbour at the meeting of the Council, held on the 27th March 1889, dealt at length with the whole question, and expressed himself in opposition to any change in the existing system. Mr Robert Steel and Sir Alexander Wilson, representatives of the Chamber on the Council, have also spoken on different occasions in support of the views expressed by Sir David Barbour.

The Finance Sub-Committee, notwithstanding, have reported in favour of a representation being made to Government, as they consider the position is now somewhat changed, and think it is most advisable that, as the season of the year when the Cash Balances are highest coincides with the exporting season when money is most scarce, Government should, during that period, lend sufficient cash to the Presidency Banks to enable those Banks always to be in a position to make advances on Government Securities. They consider that it is damaging to the credit of Government that Government paper should at any time cease to be a loanable security. They have been strengthened in this view by the fact that several witnesses before the Currency Committee, notably Sir Edgar Vincent and Mr A. M. Lindsay, were in favour of such a course being pursued by Government.

The Sub-Committee are of opinion that Government could, without danger, advance sufficient cash to relieve the stringency which generally exists from February to June in each year.

W. PARSONS,  
Secretary

The following is the Report of the Sub-Committee —

The Finance Sub-Committee recognise that in the conditions attaching to both Imperial and trade finance in India, the Government cannot place Treasury Balances at the disposal of trade with so free a hand as is done in England. The question before the Committee, however, appears to be not the wholesale surrender of Treasury Funds to the Presidency Banks, but the discretionary disposal of them in periods of stringency. If the action of the Government is such as to unnecessarily cause a money stringency at one season of the year, and a deceptive redundancy at another season, it follows that the manipulation of these funds is a potent disturbing influence in our money market.

It has been the impression for years that the Government have been sparing of their deposits with the Presidency Banks during the seasons of greatest pressure, with the object of stimulating exchange, and lavish with their deposits in the monsoon months when easy money has helped them to issue new loans.

In order to ascertain whether this impression has any justification in fact, the Finance Committee have had the following tabulated statements prepared. The point to be arrived at is this. The collection of revenue, especially the land revenue, withdraws from active circulation considerable sums of money at certain seasons, and it so happens that this withdrawal of money from private hands takes place just when funds are most needed for harvest requirements. By comparing the balances in the Civil Treasuries and Reserve Treasuries with the Treasury Balances in the Presidency Banks in March, July, and November of several years, a fair estimate may be formed of the relation between revenue funds held apart and those placed at the disposal of trade (see Statement I.) These months are selected because, generally, March is the month of acutest trade demand and largest accumulations of revenue, July the month of smallest trade demand, and November the month of smallest Government revenue.

## I

Statement showing Cash Balances in Government Treasuries, Reserve Treasuries, and Presidency Banks, in the months of March, July, and November from 1888 to 1898

TOTAL BALANCES IN GOVERNMENT TREASURIES				BALANCES IN RESERVE TREASURIES			BALANCES IN PRESIDENCY BANKS				
Year	Last day of March	Last day of July	Last day of November	Year	Last day of March	Last day of July	Last day of November	Year	Last day of March	Last day of July	Last day of November
1888	13,88,37,000	15,41,35,000	9,34,96,000	1888	71,87,000	3,64,51,000	79,04,000	1888	1,36,72,000	1,95,23,000	1,30,02,000
1889	13,30,51,000	12,70,22,000	9,00,61,000	1889	1,33,87,000	87,55,000	98,76,000	1889	1,42,84,000	1,71,94,000	1,64,04,000
1890	14,74,89,000	13,56,90,000	9,66,89,000	1890	1,41,66,000	2,39,37,000	1,35,86,000	1890	1,75,89,000	1,57,23,000	1,77,76,000
1891	17,87,61,000	14,96,65,000	10,01,07,000	1891	4,41,11,000	3,07,85,000	1,52,44,000	1891	1,44,61,000	1,53,54,000	1,58,94,000
1892	17,82,70,000	14,91,13,000	9,10,00,000	1892	3,60,90,000	3,40,19,000	1,44,20,000	1892	1,38,01,000	1,43,68,000	1,49,97,000
1893	15,27,18,000	14,06,80,000	15,23,81,000	1893	2,43,34,000	3,30,81,000	5,81,95,000	1893	1,68,03,000	1,69,10,000	1,57,28,000
1894	25,56,56,000	23,58,19,000	16,33,54,000	1894	10,12,59,000	8,72,50,000	5,00,85,000	1894	1,33,62,000	1,54,32,000	1,56,42,400
1895	22,52,96,000	19,14,02,000	10,76,68,000	1895	6,83,00,000	5,98,28,000	1,12,98,000	1895	1,58,29,000	1,45,46,000	1,56,99,000
1896	16,50,06,000	15,63,62,000	7,45,38,000	1896	2,17,51,000	3,76,92,000	1,05,37,000	1896	1,58,25,000	2,23,14,000	1,09,18,000
1897	13,87,38,000	9,25,30,000	8,07,84,000	1897	94,98,000	65,21,000	81,67,000	1897	1,68,03,000	1,34,62,000	1,65,72,000
1898	15,98,26,000	14,97,82,000	—	1898	3,15,52,000	2,93,06,000	—	1898	1,49,85,000	1,46,44,000	—

Statement II shows that the proportion of balances in Civil Treasuries to Reserve Treasuries, and to the balances deposited with the Presidency Banks, has been on the average as follows —

## II

Average Balances 1888-1897 (inclusive)

Months	Total Balances Government Treasuries	Reserve Treasuries	Presidency Banks
March - - -	17,13,82,200	3,38,09,200	1,52,43,000
July - - -	15,32,60,800	3,58,31,700	1,64,82,600
November - - -	10,50,05,800	1,99,31,200	1,52,13,200

These figures appear to support the generally received impression that the Government deposit a proportionately smaller amount with the Presidency Banks during the busy season than at other seasons. It will be seen that the proportion works out as under —

	Total Treasuries	Reserve Treasuries	Presidency Banks
March - - -	100	19 44	8 89
July - - -	100	23 38	10 75
November - - -	100	18 98	14 40

The Finance Sub-Committee are, therefore, of opinion that the present method of disposing of Government Balances does adversely affect the money market, and think that a representation might reasonably be made to Government to increase in proportion to their total funds, their deposits with the Presidency Banks during the busy season. They also think it would be fair to the Presidency Banks if the rate at which Government funds were lent against deposits in times of emergency should be one per cent below the published minimum rate of the Banks

W PARSONS,  
Secretary

*Note by the Honourable Sir James Westland, K C S I, on the Management  
of the Government Balances*

To facilitate discussion as to the extent to which Cash Balances of the Government may be made available for commercial uses, I put together in this paper some of the considerations which, from the point of view of the Government, bear upon the question

2 The great difference between the position in this respect of the Treasury in England and that in India may be seen from the following statement, which sets out first the figures relating to England (The figures are taken from the *Economist*, and though they do not precisely correspond as to date, they are good enough for the present purpose) —

(In thousands of £)	Exchequer Balance in the Bank of England	Cash Balance in the Bank of England
End of December 1897	- 3,785	19,885
January 1898 - - -	- 5,991	22,774
February 1898 - - -	- 11,907	23,606
March 1898 - - -	- 9,918 <sup>(a)</sup>	21,662
April 1898 - - -	- 5,286	22,720
May 1898 - - -	- 7,230	26,046
June 1898 - - -	- 4,800 <sup>(a)</sup>	27,071

<sup>(a)</sup> The actuals are not available, this figure is taken by deducting from the total Exchequer Balance one million assumed to be the balance in the Bank of Ireland

It will be seen from these figures that the Exchequer could at any time, if necessity arose, realise or spend the whole of the balance at its credit without causing the Bank of England to feel any but a temporary difficulty—a difficulty which possibly might not be great enough to cause any steps of sufficient magnitude to affect, or even to come to the knowledge of, the public

3 Now take the figures for India. They are made up in the annexed tables A and B for each week of the quarter, January to March 1898. It has to be remembered that, according to the contracts with the Presidency Banks, the head 'Public Deposits' in their weekly returns is practically synonymous with balance at credit of Treasury, the balances of the High Courts and their officers, and of Railway Companies, and some others, which form a not inconsiderable aggregate of public money, lie outside these amounts and are reckoned in the Bank statements as private accounts. The average of the 13 weekly returns is —

(Thousands of Rx.)	Balance at credit of Government	Cash Balance of the Bank
<i>Head Offices only—</i>		
Bank of Bengal - - -	- 739	791
Bank of Bombay - - -	- 527	636
<i>Head Offices and Branches—</i>		
Bank of Bengal - - -	- 1,576	2,019
Bank of Madras - - -	- 505	951
Bank of Bombay - - -	- 873	953

It will be seen that a demand by Government for the use of its balances would leave the Banks with an utterly insufficient amount of cash for their requirements—would in short deplete both the financial centres and the principal towns in the interior of nearly the whole of their current banking balances

4 In comparing England with India in this respect there are two features in the comparison which greatly aggravate the position as regards India. First, the balance in the Bank of England, large as it is, is after all only a portion of the available cash in London. The number of Banks in London is legion, and even though the bulk of their available balances may be represented by a deposit account with the Bank of England, yet a large amount on the whole remains in their own possession, and the diminution of the balance in the Bank of England by the whole amount it holds at the credit of the Exchequer would be a small tax upon the whole banking balance of the place. In India this is not the case, the Cash Balance of the Presidency Banks is a much more important factor in Calcutta or Bombay, for the Exchange Banks hold a comparatively small balance in their own coffers, and even that is it is understood, sometimes an advance from the Presidency Banks. Secondly, the nexus between the Bank of England and the general available cash of the country is infinitely closer than that which exists in the case of the Indian Presidency Banks. The withdrawal of, say, five millions of Exchequer Balance from the Bank of England for the purpose of meeting Government payments due throughout the country might deplete the available

cash of the Bank of England for a week or two, but the amount would speedily flow back again through a thousand different channels, and the cash position of the Bank would be as strong as ever. In India, on the other hand, payments of the kind do not flow back till after a considerable time, and partly do not come back at all. A war on the frontier, a famine in a province, or heavy expenditure upon railways will absorb large amounts of cash, part of which dribbles back slowly, and part of which for practical purposes never comes back at all.

5 These considerations introduce great difficulty into the management of the Government Balances in India. It is not merely that the Government are obliged to have close regard to the demands that are coming upon them in respect of the payments due on Government account during the next few months, but that they are obliged to have regard to future commercial demand also. Just as the Directors of the Bank of England or of the Bank of Bengal, when they anticipate a strong commercial demand, would create a position of great danger if they were merely to say "We have so many millions, or so many lakhs, in our Treasure chest, and there is therefore no use of our interfering with the demand, let us go on giving out money as long as we possess any," so the Government in India is bound to carefully guard its balances against depletion brought about either by the payments which it has in due course to meet, or by too sudden withdrawal and dispersal through the channels of commercial demand. The above-imagined policy on the part of the Bank Directors would inevitably bring about a crisis in a very short time, and carelessness of management of the same kind—a concession to immediate commercial demand, without having any regard to the future—would bring a crisis on the money market in India, much more severe and much more rapid by reason of the smallness, the almost non-existence, of any margin to fall back upon.

6 This position of responsibility is forced upon the Government in this country, not of its own will, but because it is accepted by the Banking and the Mercantile Community as the monetary system of India. The whole commerce of the country is made to depend upon the Government Balances, and the whole responsibility for the maintenance of an available Cash Reserve in India being thrown upon the Government it is taken for granted that if there is a monetary stringency, it is due to the deliberate action of the Government. When Bank Directors, to meet the occasion I have been describing, put up the rate of discount, they are said to do what is wise and proper, both in their own interests and in those of the Commercial Public, when the Government being in India in a similar position takes similar measures, it is considered to be deliberately causing an undue stringency of the money market.

7 It is not infrequently alleged in the public press and elsewhere that the Government of India, in their manipulation of Government Balances and of Council Bills, systematically pursue this policy of creating for their own purposes a stringency of the kind described. They have more than once had occasion to give this theory explicit denial. Some important papers on the subject were published in the *Gazette of India* of 23rd February 1889 (page 115, &c), which were intended to show that the one endeavour of the Government in managing their balances was to make things as smooth for the money market as it was possible for them to be, consistently with a system under which the Banks kept very little available money of their own, and depended for their immediately available resources almost entirely upon the margin of funds which the Government kept against possible administrative demands, and which are necessarily hypothecated to public necessities of the kind. For example, the weekly financial article in the *Pioneer*, referring to the transactions of the second half of September last, stated that "Government has been busy reducing its balances with the Bank of Bengal and the Bank of Bombay." The real fact, so far as Calcutta is concerned, was that Government during that fortnight paid 50 lakhs of Council Bills out of its balance in the Bank of Bengal (a matter which may be described as being within public knowledge) and the diminution of Government Balance which is the natural and inevitable consequence of the transfer of 50 lakhs from the Government Balance to that of the Exchange Banks was thus quoted as evidence that the Government was withdrawing its balances from commercial use. It will thus be seen that the criticism under reference contains exactly the mistake which was pointed out in paragraphs 22 and 23 on page 124 of the above quotation from the *Gazette of India*, and that the so-called artificial reduction of Government Balances at the Banks is nothing more or less than the issue of the amount to the public in the form of Council Bills. As a matter of fact, not a single rupee was withdrawn from the Bank to the Reserve Treasury during the latter half of the month of September.

8 It may be mentioned as regards the Government Balances at the Presidency Banks that for the express purpose of preventing any manipulation of them either in the direction of stringency or of the opposite, they are worked upon a purely mechanical system. A maximum and a minimum limit are fixed, both very much in

excess of the minimum stipulated in the contract with the Banks; and the rule is laid down that when the balance is above the maximum the responsible account officer withdraws a certain amount into the Reserve Treasury, when it falls to or below the minimum he passes money into it from the Reserve Treasury. This rule is departed from only (1) when the Government are raising a loan, and, in order to let it fall easily on the market, allow the Presidency Banks to retain a nominally excessive Treasury Balance it may be regarded as nominal, because the transaction is the result of a credit to Government on the Bank's books by debit to advances on Government Securities, and the Bank for the moment does not really possess any funds available in cash against it, (2) when the general balance is so severely depleted that for the time the Government cannot spare funds from the District Treasuries to maintain the usual standard of Cash Balance in the Presidency towns. There is, therefore, so far as the Bank balance is concerned, no manipulation for the purpose of creating stringency or of affecting the rate of exchange.

9 To proceed now to the question of Council Bills. It seems almost a truism to say it, yet it seems necessary to call it to mind that the amount of Council Bills that can be issued by the Secretary of State is strictly limited. The belief that the Government of India refuse to place their funds at the disposal of the Banks is certainly founded in some cases on the mere fact that the Secretary of State has not issued bills for the whole amount required for the payment of the balance of trade. The amount which it is possible to draw in a year may, for ordinary times, be reckoned thus

	Rx
Surplus of revenue in India over expenditure in India, including expenditure on Capital Account -	23,000,000
Money raised by loan in India for Capital Expenditure so far as it is not spent in India, a maximum of -	3,000,000
Total available - - -	26,000,000

These figures vary of course from year to year, but it must be clear that, whatever the figures are, they limit the amount for which the Secretary of State may draw

10 Now, as pointed out at length in the papers of 1889 which have been already quoted, the minimum balance with which it is possible to carry on the business of the Government in India is about eight crores, this eight crores including the balances at credit in the Presidency Banks and their branches. The balances went down to that figure and below it in the end of the year 1896, and again in the end of 1897, that is to say, in both of these years the Secretary of State drew, and the Government of India paid out, even more than was consistent with safety, the Secretary of State could not have drawn more for the simple reason that the Government of India had no funds wherewith to pay. So anxious were the Government to supply the money market with a full amount of Council Bills that in December 1896 special legislative measures were taken to add to the Cash Balances two crores of rupees out of Currency Reserve, and this enabled the Secretary of State to enhance his drawings by that amount. And again in January 1898 a special law was passed to enable the Secretary of State, if necessary, to draw Council Bills against the Currency Reserve. In the present year, 1898-99, the Council Bill programme was again based on the calculation that the Government should place at the Secretary of State's disposal, for drawings, everything they could spare subject to the condition of about eight crores remaining in the Cash Balances at the minimum period. The prospects as regards balances were much improved by better revenue, and this fact was communicated to the Secretary of State in July and again in September for the express purpose of enabling him to enhance his drawings up to the limit of the capacity of the Government to meet them, and he enhanced them accordingly. In this also there is ample evidence that the policy of the Government throughout is the very opposite of seeking to raise exchange by causing stringency. They have consistently done their best to place at the disposal of the market every surplus rupee they can spare.

11 The Government, in truth, cannot undertake to finance not only the administration of the country, but its trade and commerce also. Accordingly, when commerce finds a deficiency of available funds, the cause of the deficiency should be sought for in the scarcity of banking capital and not in some action of the Government, which is expected with resources that are often barely sufficient to meet the financial requirements of its own administration, to supply also all that is wanted for the movements of two hundred crores of imports and exports.

12 One difficulty in the regulation of Council Bill drawings lies in the fact that the revenue of Government does not come in equally during the year. This is, of course, a necessity in a country where so much of the revenue is land revenue, and has to be collected at the time when the revenue payers can most easily afford to pay it, viz., the time of harvesting and disposing of their crops.

The following is a rough estimate of the distribution, through the year, of the 26 crores which, as above mentioned, become available for drawings, the three crores of debt are taken as received half in July and half in August —

In thousands of Rs		In thousands of Rs	
April	- 600	October	- 300
May	- 1,900	November	- 700
June	- 3,000	December	- 2,500
July	- 2,500	January	- 5,500
August	- 1,300	February	- 3,100
September	- 00	March	- 4,600
Total		- 26,000	

13 Now, if the Secretary of State could distribute his drawings after the above fashion (or rather take the figures a month later so as to allow the excesses of revenue to be brought down to the Presidency towns to meet his bills), the result would no doubt be that our excess Cash Balances (that is the surplus over what is required for treasuries that are not in charge of Banks) would be wholly, or nearly so, at the disposal of commerce. But this is more a theoretical possibility than a real one. As already explained, there are no funds for Government to fall back upon if it surrenders to commercial uses its own Cash Balances and then suddenly finds that it must alter its programme of revenue and expenditure. There have been two crises of that kind within the last two years. The first was in October 1896, when the rains failed and prospects of famine suddenly made their appearance in India. It was realized that the first and necessary step was to make large remissions of revenue at once, this came upon the Government just as the balances were descending to their minimum, and there was no remedy but to call upon the Secretary of State immediately to suspend his drawings, which were being as usual so regulated as to leave no margin in December. The second was in the outbreak of frontier warfare in August and September 1897, when again the Government were obliged to stop the Secretary of State's drawings in order that they might have money to expend on the necessary military operations.

14 It is not possible for the Government therefore, dependent as they are upon their own resources, to carry on the administration with their balance continually hovering about eight crores. They can afford the risk of letting it run down to eight crores in November and December, when it is known that they will be amply in funds again when the revenue comes in in January. But if they had to keep to one figure all the year round, they would not be safe under a minimum of eleven crores (that is to say a continual margin, against possible sudden claims, of three crores). Thus the proper way of describing the policy under which the margin of money might be placed at the disposal of commerce would be "Reckon Rs 11,000,000 as your minimum current balance, but inasmuch as you can stand the risk of letting it run down for a month or two, but not longer, to Rs 8,000,000 give commerce the advantage for that month or two of the Rs 3,000,000 you can thus spare."

15 This is really not very far different from the course actually followed, at all events, the argument shows that the money withheld from possible utilisation by commerce is only the excess which is held over Rs 11,000,000, and that it is not possible, from a practical point of view, for the Government to accept as a rule of working "Eight crores is your necessary minimum, and all that you hold in excess of that should be regarded as available for commercial use." In short, eight crores is not a working minimum, it is a point of danger which can be tolerated if it is to last only for a month or two, but which might at any time land the Government in disaster, if they tried to work with it for a longer period.

16 The distribution of Council Bills over the twelve months remains entirely in the hands of the Secretary of State, the Government, in India, give him from time to time their recommendations, and especially advice as to the amount they can make available for his drawings, but as the primary object of the Council Bills is to place him in funds for the expenditure which he has to undertake, they leave it to him to consider when drawings may be eased off for want of commercial demand, or increased to meet commercial demand. At the same time the Government are quite aware that the policy of the Secretary of State in the matter is the same as their own, that is, to draw during the twelve months as much as they can meet. The considerations herein set out will show that the utmost the Secretary of State could do, if he were to neglect in regulating his drawings every consideration but that of momentary commercial convenience, would be that he might occasionally be a crore or two ahead of his

drawings as he regulates them on the present system, at the risk of having to pull up after a month or two in order to allow the resources available in India to come up to his demands upon them. The Government pronounce no opinion as to whether it is convenient for commerce to have a crore a week placed at its disposal in February to April, and then have it cut down to 12 or 15 lakhs a week in May. Of course nothing that the Secretary of State can do will increase the total of his drawings over the twelve months.

17 Having thus placed in the hands of the Secretary of State the regulation of the drawings of Council Bills, the Government naturally consider themselves precluded from interfering with his operations by advancing money, even on interest, to the Presidency or other Banks in India. Occasionally, but very rarely, short loans of the kind are made, but it is only for the relief of temporary difficulties. The last occasion on which a proposal of the kind was made was as follows. In April last the Bank of Bombay, whose rate at the time was 13 per cent, asked the Government to advance 25 lakhs to it, for a short time, at 6 per cent. This the Government either formally declined, or were on the point of declining, when the proposal was altered into one to borrow at Bank rate. Within three or four days, however, the stringency of money was relieved, the Bank rate gave way, and it was considered that the necessity for any extraordinary measure had ceased.

J WESTLAND

January 1899.

A

Statement showing the amount of Public Deposits and Cash Balances at the Head Offices of the three Presidency Banks during the first 13 weeks of the year 1898

(In thousands of rupees)

Weeks	Public Deposits				Cash Balances		
	Bank of Bengal	Bank of Madras	Bank of Bombay	Total	Bank of Bengal	Bank of Madras	Bank of Bombay
1st week -	92,94	19,03	66,78	1,78,75	68,19		55,99
2nd week -	1,01,12	24,12	50,39	1,75,63	1,01,12		91,16
3rd week -	82,21	25,88	53,45	1,61,54	77,40		91,05
4th week -	62,00	28,58	51,84	1,42,42	92,99		76,00
5th week -	54,39	26,01	48,67	1,29,07	69,41		46,84
6th week -	69,52	22,73	49,88	1,42,13	66,31		58,50
7th week -	68,87	22,02	52,71	1,43,60	69,79		36,95
8th week -	74,18	22,09	42,49	1,38,76	80,77		56,78
9th week -	80,83	19,04	44,38	1,44,25	77,77		33,96
10th week -	76,17	26,16	51,33	1,53,66	86,30		63,99
11th week -	57,63	25,40	55,44	1,38,46	77,50		69,19
12th week -	74,35	26,88	66,46	1,67,69	83,79		79,41
13th week -	67,15	18,33	51,72	1,37,20	77,63		67,29
Weekly average for the 13 weeks	73,95	23,56	52,73	1,50,24	79,15		63,62

## B

Statement showing the amount of Public Deposits and Cash Balances at the three Presidency Banks and their Branches during the first 13 weeks of the year 1898

(In thousands of rupees)

Weeks	Public Deposits				Cash Balances			
	Bank of Bengal	Bank of Madras	Bank of Bombay	Total	Bank of Bengal	Bank of Madras	Bank of Bombay	Total
1st week - -	1,70,93	28,69	82,74	2,82,36	2,37,17	86,87	85,34	4,09,38
2nd week - -	1,69,31	36,88	65,90	2,72,09	2,43,39	90,12	1,13,07	4,46,58
3rd week - -	1,48,43	39,91	71,48	2,59,82	2,10,41	93,58	1,18,53	4,22,55
4th week - -	1,36,13	57,12	79,36	2,72,61	2,17,92	1,08,56	1,16,35	4,42,83
5th week - -	1,54,45	55,48	73,17	2,83,10	2,16,80	1,02,28	82,60	4,01,68
6th week - -	1,61,12	49,86	79,87	2,90,85	2,25,42	92,00	87,82	4,05,24
7th week - -	1,36,68	43,11	75,35	2,55,14	1,71,67	80,78	67,47	3,19,92
8th week - -	1,49,83	53,55	77,38	2,80,76	1,76,91	93,06	91,42	3,61,39
9th week - -	1,70,20	50,40	75,10	2,95,70	1,82,80	88,69	69,48	3,40,97
10th week - -	1,73,42	56,64	88,16	3,18,22	2,05,88	98,12	1,07,06	4,11,06
11th week - -	1,38,93	61,15	1,04,48	3,04,56	1,71,41	96,08	1,06,94	3,74,43
12th week - -	1,65,80	66,37	1,37,68	3,69,85	1,83,54	1,01,86	1,04,42	3,89,82
13th week - -	1,73,68	57,82	1,24,89	3,56,39	1,81,20	1,04,56	88,91	3,74,67
Weekly average for the 13 weeks -	1,57,61	50,53	87,35	2,95,49	2,01,89	95,12	95,34	3,92,35

Bengal Chamber of Commerce,  
Royal Exchange Building, Calcutta,  
11th January 1899

A deputation, nominated by the Committee of the Chamber, waited upon the Hon'ble Sir James Westland, K C S I, the Finance Member of His Excellency the Governor-General's Council, at the office of the Legislative Department of the Government of India, this day, to confer with him upon the question of the management of the Government Cash Balances

The deputation consisted of the following gentlemen —

The Hon'ble Mr M C Turner (President of the Chamber)  
The Hon'ble Mr Allan Arthur  
Mr Reg Murray  
Mr W Parsons, Secretary

Mr A Rawlinson, who had also been nominated as a member, was unable to attend

The deputation was received by the Hon'ble Sir James Westland and Mr H H Risley, C I E, Officiating Secretary to the Government of India in the Finance and Commerce Department, at 3 o'clock p m

Sir James Westland in opening the discussion said —

Gentlemen,—Before I ask you to say anything with respect to the memo I have prepared, I would ask your permission to make one or two remarks with regard to the papers the Committee of the Chamber have sent to me. The object of the Sub-Committee of the Chamber have in compiling the figures they give is to show, as they state at the end, that "the figures appear to support the generally received impression that the Government deposit a proportionately smaller amount with the Presidency Banks during the busy season than at other seasons"

That statement is based upon the figures set out in the Report showing that on the average at the end of March 152 lakhs of rupees have been placed with the Presidency



Banks; at the end of July 164 lakhs, and at the end of November 152 lakhs. These figures, of course, are quite correct, but there is one thing to be borne in mind with respect to them. I pointed out in my memo that when loan money was being raised by the Government it was necessary for certain reasons to leave very large nominal balances with the Banks. Such balances are regarded as nominal, because the transaction is the result of a credit to Government on the Bank's books by debit to advances on Government Securities and not of an actual receipt of cash by the Banks. At that time we always make arrangements with the Banks that money shall be left with them, and that we shall not call upon them, except gradually, to pay up the money which they showed to be at our credit on the accounts. The figures for July, if you refer to them, include two very large figures—one in 1888—195 lakhs, and the other in 1896—223 lakhs. You will see that these figures are very much in excess of the amounts that were with the Banks at any other time. Now I have made enquiry with reference to these figures, and I find that taking the two Banks, the Bank of Bengal at Calcutta, and the Bank of Bombay at Bombay, in the month of July 1888, the two Banks received between them 268 lakhs. In 1896 the amount they received was 247 lakhs. On these two occasions these very large sums were left to their credit and they were not normal balances at all. They are the balances which were left in their hands with reference to that special arrangement which it is always necessary to make. I find that if these two large figures are left out of the balances in the Presidency Banks as stated for July, the second statement of the Sub-Committee would show 152 lakhs for March, 138 lakhs for July, and 152 lakhs for November, so that the conclusion would be exactly opposite to that drawn by the Sub-Committee, as the Balances in July would be less than is customary in March and November. But I think if you take all the figures, without taking averages, you will see that they bear out what I say in my Note that practically the balances which we hold at the Presidency Banks are steady. We aim at maintaining them at a particular figure. We are not bound to do so, but it is a sort of understanding between ourselves and the Banks. They do not vary greatly.

Mr Murray All the year round?

Sir James Westland Yes. I think if our monthly statement which is sent to the Chamber is looked at, it will be seen that the balances are a fairly steady amount. It varies somewhat, but is rarely as low as 140 laks, or as high as 190 lakhs, but as I say our policy is to maintain a pretty considerable and a fairly steady balance with the Banks. One of the figures shown in the Statement is the balance of November 1896. It went down as low as 109 lakhs. I do not know if you remember the circumstances of 1896. I do very well. At that time our total Cash Balances were down to something like 7½ crores. I know I was very anxious at that time, because I had made arrangements, in coming down from Simla to Calcutta, to go to Bombay and to one or two other places, but I was obliged to come straight down to Calcutta on account of my anxiety connected with the lowness of the balances. But with the exception of that extremely low figure, which was entirely due to the depletion of our General Balances at the time, I think the statement drawn up by the Sub-Committee of the Chamber shows that we maintain a steady balance with the Banks. Although we are not obliged to maintain this steady balance, we wish to maintain it in the absence of any special circumstances. There is one other point I wish to mention. By the last mail I obtained from home a copy of the evidence given by Lord Northbrook before the Committee of Enquiry now sitting in London. It would be rather a long business for me to read out the answer he gave to the Committee when he was asked about this very question of the Government balances, but here is part of what he said —

“In a crisis in India you want rupees, you want the actual money for payments up country. I can give the Committee an instance of what happened to me in connection with this particular subject. In the year 1874 there was a famine in Bengal, and in order to feed the people we had to buy rice in Burma and send it to Bengal. In order to get the rice we had to pay hard coin, rupees, for it. The banks then had the full use of the Government Balances, and the Bank of Bombay had at that time more than a million rupees—a million and a half, I believe—of the Government balances. In order to pay for the rice, we wanted some of this money. When we asked the Bank for it, we had the greatest difficulty in getting it. The Government of Bombay objected, and it was only after considerable correspondence, and by insisting upon getting our money that we got at last about half a million of the million and a half that they had of our balances.”

This subject was also mentioned in the Budget Debate in 1889. Sir David Barbour then quoted the remonstrance which the Government of Bombay sent in, which was to the effect that if the Government withdrew their balance from the Bank of Bombay the Bank would have to call in the sums due from the Exchange Banks, and there would be a general panic and serious danger of stoppages.

Lord Northbrook quotes from the despatch He says —

“It was so serious a condition of things for the Government of India not to be able to get their money when they wanted it, that we addressed the Secretary of State on the subject, and the correspondence is given in the evidence published in the first Report of a Commission now sitting on Indian expenditure at at Question 8258 We said — ‘We have been much impressed with the consideration that the effect of the existing agreements with the Banks which compels us to place all the Cash Balances belonging to Government in their hands, leads to consequences which may be very inconvenient, if not worse, both to Government and to trade The only use of these balances to Government is that they may be made available the moment the public service requires them We have had no difficulty in regard to the balances in the hands of the Banks of Bengal and Madras, the Bank of Bombay, however, protested against meeting drafts upon it, and on the urgent representations of the Governor of Bombay, we were obliged, on the 29th January, to allow a month’s time before drawing The Bank of Bombay, accustomed to high Government balances, and relying on the maintenance of these balances, had so employed them that they were practically locked up, for had we insisted on withdrawing them more suddenly, we should have done so in the face of a warning that we should produce a commercial crisis, and therefore, for a time, the Government balances at Bombay were useless for the purposes of the Government’ The upshot of it all was that an alteration was made, and at our recommendation the Government now hold about two crores in the Reserve Treasury They are not bound now to keep the whole of their balances in the Banks, and they keep two crores actually in their own hands, which they can use on an emergency I do not think it is safe for the Government of India not to have the absolute command of two crores of rupees”

To a subsequent question Lord Northbrook answers —

“8451 At each Bank do you mean?—No, two crores altogether I do not think it is at all an unreasonable amount, and it is not safe to have less The Government of India are in quite a different position to the Government of England The Government of India, if they want money, could not get it in India to any considerable extent, and if they tried to get it and failed, it would bring them into great discredit Therefore, I do not think the Government should be bound to keep the whole of their balances in the Banks It is not, in my opinion, the business of the Government of India to finance Indian Trade, it is the business of commerce to finance Indian Trade At the same time I do not see why the Government of India should not to any reasonable extent assist trade by allowing the use of their balances by the Presidency Banks with proper precautions, but I want to point out that it is not safe to put the whole of the balances in the hands of the Banks, judging by the experience that I myself have had”

Well, Lord Northbrook gives the figures of our requirements at two crores of rupees My Note, which was written before I knew Lord Northbrook’s opinion, puts it down at three crores But it must be remembered that Lord Northbrook’s experience is based on 1874, and since then the area of our operations has very much increased Then there is another thing Lord Northbrook only had a single contingency in contemplation In 1897 we had two contingencies We had a famine, and on the top of that came the Frontier War, so that we had two calamities to meet at the same time, and two heavy demands Then, I want to point out with reference to this remark of Lord Northbrook, viz —

“The Government of India are bound to see that they have the command of a certain sum of money without putting it in the power of the banks to tie it up even for a limited time I am speaking about those two crores which are kept in the Reserve Treasury With regard to the rest of the balances beyond what is required to work the Finance of India, I do not see why the greater portion should not be in the hands of the Presidency Banks”

The practical difficulty in my mind is this that as long as we have a considerable balance in the Reserve Treasury, the fluctuations of balances which are caused by very large demands for the Secretary of State’s Bills, or for payments to meet famine requirements, or a sudden outbreak of war, will be met from the Reserve Treasury The Banks know perfectly well that, so long as we have got a balance in the Reserve Treasury, we shall not come down on them for the balances we have left with them. But if we make it a rule to hand over to them the balances in excess of a given amount—either two or three crores—it is obvious that any sudden demand will fall upon the Banks and not upon the Reserve Treasury

Mr Murray said that upon that point the Bengal Chamber had always been in agreement with the views expressed by Sir James Westland The speeches made by

Mr Robert Steel, and Sir Alexander Wilson, in the Imperial Legislative Council, were in favour of those views, and he did not think the opinion of the Chamber in that respect had changed. It was only in regard to the proportion of the funds that they thought some alteration might possibly be made. The point the Committee of the Chamber laid stress upon was that during the months, December to March, when the Government was taking most money from the public, it so happened that the public required most money for harvest operations. The money was collected by the Government at precisely the time when it was most urgently wanted. The idea was that during that time the amount of the balances with the Presidency Banks should be temporarily increased. It was the collection of the Government revenue during those few months that really caused the stringency.

Mr Turner said that they only wished to ask Government to come to the assistance of trade at times of great stringency in the money market. It appeared to the Committee of the Chamber that more assistance might be given to trade by the Government at the busy season of the year. He thought the contingency of people being unable to raise money upon Government paper should be avoided, if possible, as it was damaging to the credit of the Government. It was probable that such assistance would only be required so long as exchange remained in its present position. When exchange became fixed the Exchange Banks would probably bring out money.

Sir James Westland enquired what sum, in the opinion of the deputation, would be required to relieve the stringency.

Mr Murray replied that it would not be a large sum, probably an extra crore, or one and a half, or even two crores.

Mr Arthur said that he understood the fixed maximum and minimum for Government deposits with the Presidency Banks were the same all the year round, and enquired why the same figures should be fixed for the slack business season when Government balances are low as for the busy season when Government balances are large. He thought that Government might so arrange that their balances with the Presidency Banks should be increased during the busy season, seeing that not only do trade demands for accommodation increase at that time, but the supply of money, as pointed out by Mr Murray, was decreased at that period by large withdrawals of currency from circulation by Government.

Sir James Westland said that, as he understood the suggestion, it was that the Government should, at the beginning of the busy season lend to the Presidency Banks a certain sum of money which would be recalled at the end of the busy season. The Government could not consent to an open credit on which the Banks might operate at their convenience, and any loans of the kind would have to be made under conditions regarding repayment upon fixed dates. He himself doubted whether, if he were to go to the Bank of Bengal in January and offer them say, 40 lakhs to be returned in April, they would accept the money and pay interest on it for the whole period. He thought the interest demanded in such a case should be at the rate of one per cent below the minimum published Bank rate, as suggested by the Sub-Committee.

Mr Turner thought the Presidency Banks would take the money for fixed periods of say three months. Loans were made for one month, or two months, or three months, and he could not see why the Presidency Banks should have any objection to the Government stipulating that the money must be returned within three months. His idea was that the money was not really required until the Bank rate had reached 10 per cent.

Mr Arthur said that by the Government lending, say, 40 lakhs to the Presidency Banks, the loanable capital of the country would be increased by that amount. The loanable capital of the country was not increased by the sale of Council Bills.

Sir James Westland agreed that the sale of Council Bills did not increase the capital of the country, because merchants only got out the Bills for the purpose of meeting immediate demands upon them. The money obtained was at once distributed all over the Mofussil.

Mr Arthur observed that the treatment of the Treasury Balances was, in his opinion, a minor matter, as compared with the question of Government coming to the assistance of commerce in a time of crisis. With reference to the statement in Sir James Westland's Memorandum, paragraph 14, from which it appeared that eleven crores were necessary as a minimum, i.e., there should be a "continual margin against a possible sudden claim of 3 crores," the Government of India had declined to advance to the Bank of Bombay last April 25 lakhs against Government paper. Mr Arthur read an extract from Mr Merwanjee Dalal's evidence before the Currency Committee, describing the extreme stringency in Bombay at that time, and stated that on the 1st of April the Treasury Balances amounted to Rs 15,96,95,000, on 30th April they were Rs 13,69,73,000, and they did not fall below Rs 12,80,00,000 until the end of October. He was of opinion that, under the circumstances, the small accommodation asked for, viz, a quarter of a crore, might have been granted.

Sir James Westland replied that the substance of the correspondence with the Bank of Bombay had been set out in his memorandum placed in the hands of the

Chamber of Commerce The negotiation had practically dropped, because the Bank rate fell and money became easier, a few days after the proposal was made to borrow the money He could not undertake to say whether if this had not been the case, the loan would have been granted or refused by the Government \* He said that, as a matter of fact, he had on one or two occasions made loans to the Presidency Banks—usually on the deposit of Government Paper

Mr Arthur observed that at a time of crisis in England it was open to the Government to suspend the Bank Act, but in India there appeared to be no safeguard in a crisis In India where the Currency was inconvertible and therefore inelastic, the necessity of some method of assisting commerce at a time of excessive need was all the greater

Sir James Westland said that there had never been a crisis sufficiently acute in India to necessitate such a step as the suspension of the Bank Act being taken The issuing of Notes in the Currency without receiving an equal amount of coin into the Reserve would be equivalent to the suspension of the Bank Act in England

Mr Murray observed that the Exchange Banks were short of money at the busy season of the year by reason of all their resources being locked up in produce afloat They had not withdrawn money from the foreign trade of India All they had done was to put that money into sterling form The money was used for exactly the same purposes as before

Sir James Westland said that formerly the Exchange Banks used to send out considerable quantities of money to India where it was held in the shape of rupees, but that this was not done now, as the Exchange Banks only got out Council Bills, as they actually wanted them to pay for export bills

Mr Murray pointed out in reply to this that the foreign trade had increased so considerably that the Exchange Banks had to devote their resources almost exclusively to it, and this was evidenced by the fact that Local Banks were now rising to finance the local business which the Exchange Banks had been forced to abandon

After some further discussion, chiefly with reference to the course of action followed by the Exchange Banks, Sir James Westland said that the Deputation would of course understand that it was impossible for him to give a final answer upon the representations laid before him They involved a question of policy which had been the subject of instructions by the Home Government, and were at the present moment under consideration by the Currency Commission, and any representations which had been made on the subject, would require to be laid before the Secretary of State He had little doubt that the Government of India would be willing to make a representation to the Secretary of State in the sense indicated by Mr Arthur, and propose for consideration that a definite amount might be considered available for loans to the Presidency Banks during the months of January, February, and March, when money was being withdrawn from the market by heavy collections of revenue and the Government Treasuries were full He would lay the matter before the Government of India with this object in view

Mr Murray said that the principle on which the Presidency Banks in India regulated their Cash Balances was much the same as that observed by the Bank of England With the exception of the last two or three years when the Bank of England cash has been abnormally large, the proportion of their cash to liabilities has, on the average, been similar to that of the Presidency Banks in India

Mr Turner having thanked Sir James Westland for affording the representatives of the Chamber an opportunity of discussing the question with him, the Deputation withdrew

W PARSONS,  
Secretary

Despatch to Government of India, No 87 (Financial), dated India Office, London,  
4th May 1899

To His Excellency the Right Honourable the Governor-General of India in Council

My Lord,

I have considered in Council your Excellency's letter dated the 2nd of February, No 30, on the subject of the use of the Government balances in aid of banking resources in India

2 The question was raised by the report of the Finance Sub-Committee of the Bengal Chamber of Commerce, in which it was stated to have 'been the impression "for years that the Government have been sparing of their deposits with the Presidency Banks during the seasons of greatest pressure, with the object of stimulating "exchange, and lavish with their deposits in the monsoon months, when easy money "has helped them to issue new loans"

\* I find on reference to the papers that the Government was on the point of sanctioning the loan, when the Bank rate in Calcutta was reduced from 12 to 11 per cent (20th April), the price of Government Paper rose and Exchange fell The Comptroller General was, accordingly, instructed that in view of these indications that the stringency in the money market had been materially relaxed, it was considered that a loan to the Bank of Bombay was not at present necessary.—J W,

3 In the note which Sir James Westland wrote in reply, he observed that the Government had more than once had occasion explicitly to deny that they had systematically pursued a policy to create stringency, and he said that there had been no manipulation of the balances to affect the rate of exchange. In order to test how far there was any ground for such a belief, I have caused the cash balances to be examined from the time when the Reserve Treasury was instituted, and the following is the result —

Average Government Balances with the Presidency Banks or in the District Treasuries, but excluding the Reserve Treasury (in lakhs), on the last day of each month

Years	Busy Season, January to May			Slack Season, June to December		
	Maximum	Minimum	Mean	Maximum	Minimum	Mean
5 years, 1878-82	1,242	1,055	1,144	1,224	874	1,038
„ 1883-87	1,220	1,020	1,100	1,128	835	952
„ 1888-92	1,316	1,106	1,183	1,245	821	1,017
„ 1893-97	1,431	1,194	1,281	1,274	865	1,062
Or						
6 years, 1893-98	1,406	1,171	1,258	1,266	886	1,072

It will be observed that the amount in the hands of the Presidency Banks (including that in the district treasuries which is not shown separately), during the busy season is now usually much larger than formerly, and although the amount during the slack season has slightly increased, this may be fully explained by the failure to sell bills on India in some of the recent years. In the recently published report by the Comptroller-General on the state of the Cash Balances during 1897-98, it is pointed out that at the time of the greatest pressure the amounts in the hands of the Presidency Banks were kept at a fairly high level, the reduction being as far as possible effected at the Government treasuries. As to the supposed manipulation of the balances to facilitate the raising of loans, the figures are as follows —

	Maximum	Minimum	Mean
Average of 14 years in which Loans were raised	1,276	854	1,069
Average of 7 years in which Loans were not raised	1,372	859	1,120

4 At the Conference which was held between Sir James Westland and a deputation from the Committee of the Bengal Chamber of Commerce it was admitted that, as had been pointed out by Mr Robert Steel in 1889, and Sir Alexander Wilson in 1890, when the subject of the management of the Government balances had been discussed in the Legislative Council, any sudden demand for money to meet the exigencies of the Government would fall more heavily on the Banks, if all the balances beyond a limited amount were placed in their hands, but it was suggested that the proportion of the funds at their disposal, and of those retained in the Reserve Treasury might with advantage be altered.

5 In order to meet the wishes of the Committee of the Chamber as far as possible, Your Excellency proposes that, during the months of January to May in each year, when large sums are withdrawn from the public in payment of Government revenue, it may be recognised as part of the ordinary business of management of the Treasury balances, to lend money to the Presidency Banks, in sums not less than 10 lakhs of rupees, at one per cent below the declared minimum rate of discount of the borrowing bank, which would be required to deposit Government paper as security, and to repay the money at a definite date, in no case later than the 31st May. For such purposes you consider that ordinarily you could spare a crore and a half of rupees without difficulty.

6 I am not sure that I understand the reasons why your Government solicit my sanction to such an arrangement. The management of the cash balances in India is entirely within your discretion. When it was proposed to institute a Reserve Treasury in order to guard against the risk of public inconvenience on the occurrence of an emergency, the Marquis of Salisbury, in his Despatch of the 6th of May 1875, No 225, though not approving precisely of the suggestions laid before him, left the matter in the hands of the Government of India, observing that it would be competent for the Financial Department either to retain the money so reserved in the Treasury, "or to lend it for short terms under suitable conditions as to interest and security."

7 This expression seems so exactly to cover your proposal, that I have to look further for the grounds on which it is made, and I presume that these are contained in the last paragraph of your letter, in which you observe, "We cannot say that the proposed facility for borrowing money in India would not in any way interfere with your Lordship's Council Bill operations." You think, however, that the transfer of part of the demand from the busy to the slack season of foreign trade would not operate disadvantageously, while it would tend to prevent the rate of discount in India from rising so high as in 1897 and 1898.

8 From this point of view it appears to me that the suggested course is open to considerable objection. The remittance to England, at a favourable rate of exchange, of the amount necessary for the discharge of your sterling obligations, is one of the principal points to be aimed at in the management of the balances, and it is therefore desirable to take the utmost advantage of the season when there is the greatest demand for bills on India. The postponement of a portion of the Government remittances might stimulate imports on private account, and it might very likely be found that, when the time arrived for calling in the money due to you, the balance of trade had been to some extent adjusted, and that there was no such necessity for remittances from India during the early summer as you had expected.

9 I think, further, that any general understanding of the nature proposed would have the effect of inducing the commercial community to rely even more than at present on the assistance of the Government, instead of taking steps to enlarge the amount of loanable capital in the country, the scarcity of which seems to have been the chief cause of the high rates of discount in the year 1897-98.

10 In these circumstances I am unable to approve of the proposal that you have laid before me. It is impossible to prescribe any specific amount which must be retained in the Reserve Treasury or be otherwise at the command of the Comptroller-General on short notice, in order to meet not merely the disbursements of your Government in India but also the probable amount of remittances to England, and it is essential that an adequate provision should be made for these purposes. Subject to this being maintained, I see no objection to your lending money to the Presidency Banks on the security of Government paper, at such rate of interest from time to time, and for such periods, as you think best. I am inclined to think that the rate should, as a rule, be not below Bank rate.

I have, &c,  
(Sd) GEORGE HAMILTON

Despatch from Secretary of State for India to Government of India,  
No. 147 (Financial), dated 23rd December 1910

To His Excellency the Right Honourable the Governor General  
of India in Council

MY LORD,

Under the decision conveyed in my telegram dated 13th December 1910, the exceptional receipts in 1910-11 due to the high price of opium are to be applied, after allowing for grants to Provincial Governments, to the discharge of temporary debt, but I stated in my telegram of the 19th instant that the discharge will not begin until 1912-13. The explanation of the latter decision is as follows —

The temporary sterling debt on 1st April next will be as shown in the following statement —

Year of Maturity	Maturing Annually	To be discharged at Specified Dates		
	India Bills	India Bonds	Debenture Bonds (issued by Madras and Indian Midland Railway Companies, direct liability assumed by Secretary of State in Council on termination of Contracts with Companies)	Total
1911-12	£ 500,000	£ 500,000	£ 1,776,200	£ 2,276,200
1912-13	500,000	500,000	1,477,600	1,977,600
1913-14	500,000	500,000	1,281,200	1,781,200
1914-15	5,000,000	500,000	—	500,000
1915-16		500,000	407,500	907,500
1916-17		500,000	—	500,000
1917-18		500,000	—	500,000
1918-19		500,000	—	500,000
Total	5,000,000	4,000,000	4,942,500	8,942,500

2 On each occasion when any of the India bills shown in the list above become due, the Secretary of State in Council can either discharge them finally or, in accordance with the practice that has been more usual in recent years, can make an issue of bills in replacement. But, when India bonds or debentures mature, there would be strong objections to issuing similar securities in replacement. Provision for the discharge of bonds and debentures is thus required even more urgently than for the discharge of India bills.

3 An amount almost sufficient for repaying the 1,776,200*l.* debentures maturing in 1911-12 has already been raised, the issue of India bonds in October 1910 having been fixed at 4,000,000*l.* for this purpose, and, as you are aware, it is intended to apply to the discharge of the India bonds maturing in the same year part of the proceeds of the permanent loans of the year. But no arrangements have been made to meet the liability for the repayment of debentures and bonds maturing after 1911-12. In these circumstances it will be prudent to hold in reserve—to be used, if necessary, for meeting that liability—the receipts mentioned at the beginning of this Despatch. But the desirability of reducing the amount of

India bills in existence, to which attention was drawn in Lord Morley's Despatch No 40 (Railway), dated 13th May 1910, will not be overlooked, and, if it is found possible to discharge bonds and debentures maturing after 1911-12 from sources (such as the proceeds of permanent loans) other than the exceptional receipts from opium and to apply those receipts to the discharge of India bills without replacement, this will be done.

I am, &c,  
(Signed) CREWE

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Telegram from the VICEROY to the SECRETARY OF STATE,  
dated 22nd January, 1913

Your telegram of 6th instant Use in India of Indian balances and restrictions of Council bills First, in connexion with possible revision of our agreement with Presidency Banks, a matter which we are still considering, the question has been raised of the balances to be kept with them, whether at the Head Offices or at branches As the Banks urge that, having regard to increased amount of work performed for Government, they are now entitled to more favourable terms, the question in this connexion should be looked upon as one of remuneration Also, the Indian Specie Bank, at the same time as they applied to you, sounded us recently regarding a loan from balances in India With this exception, excluding the representations you mention in your telegram, we have, during the last 10 years, received no formal representations in favour of (1) depositing larger balances with the Presidency Banks, (2) an extension of the practice of special loans to them, or (3) loans to other banks or firms generally At a recent interview with Sir G. Fleetwood Wilson, the Calcutta Exchange Banks seemed to regard with disfavour the practice of lending on a large scale In addition, we would remark that, while we are ready, when money is required owing to quite exceptional market stringency, to make advances to Presidency Banks, we have for five or six years past, received no requests for loans of the kind, and this fact has a bearing on the agitation for reserving Indian money for use in India Secondly, our practice is to keep at the Head Offices of the Presidency Banks the following balances —

- (1) Bank of Bengal, Rs 70,00,000 or Rs 80,00,000
- (2) Bank of Bombay, Rs 40,00,000 to Rs 50,00,000
- (3) Bank of Madras, a little over Rs 20,00,000

As a rule we do not allow the balances to exceed, in the case of (1), a crore, and, in the case of (2), half a crore, and the Banks are liable for interest on excesses over these sums if they object to their withdrawal On the flotation of a loan, however, in order to allow it to fall easily on the market, the rule is relaxed and caution is observed in withdrawing money, while in special cases, such as the Arbuthnot failure, very high balances are maintained so that a crisis may be avoided In ordinary cases no amounts are fixed for the balances to be held at the branches of the Presidency Banks, but sometimes, as an encouragement to open new branches, a minimum balance is guaranteed for a certain number of years With regard to the restriction of Council bills, it has always been urged by Mr Webb that they should be limited to the amount required to meet your Home charges, and he made representations in September and October 1912 against the increased weekly allotments then being made, on the ground that they prevented the rise of exchange to specie point and interfered with the importation of gold coin and bullion So far as we can trace, no other representations on this subject have been made

On the points put to us, we think that, although improvements may be from time to time suggested by experience, the practice now obtaining is generally sound, and, having regard to the absence of complaints over a long series of years, that responsible opinion in this country is in agreement with us

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**STATEMENT A**  
**Receipts, Disbursements, and Balances in India and England from 1907-08 to 1913-14.**

	1907-08								
	BUDGET			ACTUAL			Increase or decrease		
	India	England	Total	India	England	Total	India	England	Total
<b>A.—Opening Balance</b>	£ 10,785,000	£ 4,313,800	£ 15,098,800	£ 10,026,900	£ 5,606,800	£ 15,633,700	£ -758,100	£ +1,293,000	£ +534,900
<b>B.—Receipts</b>									
1 Revenue	74,393,100	619,700	75,012,800	70,284,600	718,600	71,003,200	-4,108,500	+98,900	-4,009,600
2 Capital received from Railway Companies	875,600	3,825,000	4,700,600	2,422,300	2,240,500	4,662,800	+1,546,700	-1,584,500	-37,800
3 Loans issued for the requirements of the current year	2,000,000	3,500,000	5,500,000	1,666,700	4,500,000	6,166,700	-333,300	+1,000,000	+666,700
3A Loans issued in advance for the requirements of the following year	—	—	—	—	4,133,000	4,133,000	—	+4,133,000	+4,133,000
4 Unfunded Debt (net)	684,800	—	684,800	515,500	—	515,500	-169,300	—	-169,300
5 Deposits and Advances (net)*	846,300	-51,300	795,000	741,400	101,400	842,800	-104,900	+152,700	+47,800
6 Miscellaneous Remittances (net)	25,000	73,700	98,700	1,627,100	1,587,100	40,000	+1,602,100	-1,660,800	-58,700
7 Council Bills and Transfers	—	18,100,000	18,100,000	—	15,705,700	15,705,700	—	-2,394,300	-2,394,300
<b>Total Receipts</b>	<b>78,824,800</b>	<b>26,067,100</b>	<b>104,891,900</b>	<b>77,257,600</b>	<b>25,812,100</b>	<b>103,069,700</b>	<b>-1,567,200</b>	<b>-255,000</b>	<b>-1,822,200</b>
<b>C.—Disbursements</b>									
8 Expenditure chargeable to Revenue	56,278,500	18,402,900	74,681,400	53,231,100	18,487,300	71,718,400	-3,047,400	+84,400	-2,963,000
9 Capital outlay on Railways and Irrigation Works	2,693,300	8,040,900	10,734,200	4,676,800	7,689,500	12,366,300	+1,983,500	-351,400	+1,632,100
10 Discharge of Debt	85,100	500,000	585,100	83,700	634,800	718,500	-1,400	134,800	+133,400
11 Loans and Advances (net)	80,300	—	80,300	1,221,100	—	1,221,100	+1,140,800	—	+1,140,800
12 Council Bills and Transfers	18,103,900	—	18,103,900	15,220,400	—	15,220,400	-2,883,500	—	-2,883,500
<b>Total Disbursements</b>	<b>77,241,100</b>	<b>26,943,800</b>	<b>104,184,900</b>	<b>74,433,100</b>	<b>26,811,600</b>	<b>101,244,700</b>	<b>-2,808,000</b>	<b>-132,200</b>	<b>-2,940,200</b>
<b>D.—Closing Balance</b>	<b>12,368,700</b>	<b>3,437,100</b>	<b>15,805,800</b>	<b>12,851,400</b>	<b>4,607,300</b>	<b>17,458,700</b>	<b>+482,700</b>	<b>+1,170,200</b>	<b>+1,652,900</b>

\* Including Capital Account of Local Boards, but excluding Provincial Adjustments and Cash held on behalf of the Gold Standard Reserve

STATEMENT A—continued.

RECEIPTS, DISBURSEMENTS, and BALANCES in India and England from 1907-08 to 1913-14—continued

	1908-09								
	BUDGET			ACTUAL			Increase or decrease		
	India	England	Total	India	England	Total	India	England	Total
<b>A.—Opening Balance</b> - -	£ 12,310,200	£ 5,109,400	£ 17,419,600	£ 12,851,400	£ 4,607,300	£ 17,458,700	£ +541,200	£ -502,100	£ +39,100
<b>B.—Receipts</b>									
1. Revenue - - - - -	72,818,300	620,600	73,438,900	69,159,800	601,700	69,761,500	-3,658,500	-18,900	-3,677,400
2. Capital received from Railway Companies - - -	-72,900	4,900,000	4,827,100	37,100	5,289,800	5,326,900	+110,000	+389,800	+499,800
3. Loans issued for the requirements of the current year	2,000,000	1,246,000	3,246,000	1,333,300	5,867,000	7,200,300	-666,700	+4,621,000	+3,954,300
3A. Loans issued in advance for the requirements of the following year	- - -	- - -	- - -	- - -	4,475,000	4,475,000	- - -	+4,475,000	+4,475,000
4. Unfunded Debt (net) - - - - -	453,500	- - -	453,500	251,400	- - -	251,400	-202,100	- - -	-202,100
5. Deposits and Advances (net)* - - - - -	487,300	8,000	495,300	96,900	151,900	248,800	-390,400	+143,900	-246,500
6. Miscellaneous Remittances (net) - - - - -	-1,846,000	1,897,200	51,200	-2,634,500	2,357,400	-277,100	-788,500	+460,200	-328,300
7. Council Bills and Transfers - - - - -	- - -	18,500,000	18,500,000	- - -	12,423,900	12,423,900	- - -	-6,076,100	-6,076,100
<b>Total Receipts</b> - - - - -	<b>73,840,200</b>	<b>27,171,800</b>	<b>101,012,000</b>	<b>68,244,000</b>	<b>31,166,700</b>	<b>99,410,700</b>	<b>-5,596,200</b>	<b>+3,994,900</b>	<b>-1,601,300</b>
<b>C.—Disbursements</b>									
8. Expenditure chargeable to Revenue - - - - -	54,783,400	18,609,100	73,392,500	55,241,400	18,925,100	74,166,500	+458,000	+316,000	+774,000
9. Capital outlay on Railways and Irrigation Works	1,216,100	9,047,300	10,263,400	3,062,900	7,999,200	11,062,100	+1,846,800	-1,048,100	+798,700
10. Discharge of Debt - - - - -	84,600	865,800	950,400	175,600	865,800	1,041,400	+91,000	- - -	+91,000
11. Loans and Advances (net) - - - - -	207,200	- - -	207,200	548,200	- - -	548,200	+341,000	- - -	+341,000
12. Council Bills and Transfers - - - - -	17,989,000	- - -	17,989,000	11,831,800	- - -	11,831,800	-6,157,200	- - -	-6,157,200
<b>Total Disbursements</b> - - - - -	<b>74,280,300</b>	<b>28,522,200</b>	<b>102,802,500</b>	<b>70,859,900</b>	<b>27,790,100</b>	<b>98,650,000</b>	<b>-3,420,400</b>	<b>-732,100</b>	<b>-4,152,500</b>
<b>D.—Closing Balance</b> - - - - -	<b>11,870,100</b>	<b>3,759,000</b>	<b>15,629,100</b>	<b>10,235,500</b>	<b>7,983,900</b>	<b>18,219,400</b>	<b>-1,634,600</b>	<b>+4,224,900</b>	<b>+2,590,300</b>

\* Including Capital Account of Local Boards, but excluding Provincial Adjustments and Cash held on behalf of the Gold Standard Reserve

	1909-10								
	BUDGET			ACTUAL			Increase or decrease		
	India.	England	Total	India	England	Total	India	England	Total
<b>A.—Opening Balance</b> - -	£ 10,232,600	£ 7,698,000	£ 17,930,600	₹ 10,235,500	£ 7,983,900	£ 18,219,400	₹ +2,900	£ +285,900	£ +288,800
<b>B.—Receipts</b>									
1 Revenue - - - -	73,105,500	645,400	73,750,900	73,882,300	711,200	74,593,500	+776,800	+65,800	+842,600
2 Capital received from Railway Companies - -	64,700	2,400,000	2,464,700	121,900	2,459,400	2,581,300	+57,200	+59,400	+116,600
3 Loans issued for the requirements of the current year	1,667,300	2,823,700	4,491,000	1,666,600	2,699,600	4,366,200	-700	-124,100	-124,800
3A Loans issued in advance for the requirements of the following year	—	—	—	—	6,370,000	6,370,000	—	+6,370,000	+6,370,000
4 Unfunded Debt (net) - - - -	853,500	—	853,500	783,200	—	783,200	-70,300	—	-70,300
5 Deposits and Advances (net)* - - - -	803,600	-500	803,100	949,100	-103,600	845,500	+145,500	-103,100	+42,400
6 Miscellaneous Remittances (net) - - - -	37,000	-63,400	-26,400	534,300	-248,000	286,300	+497,300	-184,600	+312,700
7 Council Bills and Transfers - - - -	—	16,200,000	16,200,000	—	18,006,600	18,006,600	—	+1,806,600	+1,806,600
<b>Total Receipts</b> - - - -	<b>76,531,600</b>	<b>22,005,200</b>	<b>98,536,800</b>	<b>77,937,400</b>	<b>29,895,200</b>	<b>107,832,600</b>	<b>+1,405,800</b>	<b>+7,890,000</b>	<b>+9,295,800</b>
<b>C.—Disbursements</b>									
8 Expenditure chargeable to Revenue - - - -	54,358,100	19,362,400	73,720,500	53,969,900	19,122,900	73,092,800	-388,200	-233,500	-627,700
9 Capital outlay on Railways and Irrigation Works	4,232,400	6,832,700	11,065,100	3,771,600	5,747,700	9,519,300	-460,800	-1,085,000	-1,545,800
10 Discharge of Debt - - - -	129,200	179,400	308,600	148,500	209,400	357,900	+19,300	+30,000	+49,300
11 Loans and Advances (net) - - - -	-282,300	—	-282,300	-809,100	—	-809,100	-526,800	—	-526,800
12 Council Bills and Transfers - - - -	16,064,300	—	16,064,300	18,796,600	—	18,796,600	+2,732,300	—	+2,732,300
<b>Total Disbursements</b> - - - -	<b>74,501,700</b>	<b>26,374,500</b>	<b>100,876,200</b>	<b>75,877,500</b>	<b>25,080,000</b>	<b>100,957,500</b>	<b>+1,375,800</b>	<b>-1,294,500</b>	<b>+81,300</b>
<b>D.—Closing Balance</b> - - - -	<b>12,262,500</b>	<b>3,328,700</b>	<b>15,591,200</b>	<b>12,295,400</b>	<b>12,799,100</b>	<b>25,094,500</b>	<b>+32,900</b>	<b>+9,470,400</b>	<b>+9,503,300</b>

\* Including Capital Account of Local Boards, but excluding Provincial Adjustments and Cash held on behalf of the Gold Standard Reserve

1909

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APPENDIX II

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## STATEMENT A —continued

## RECEIPTS, DISBURSEMENTS, and BALANCES in India and England from 1907-08 to 1913-14—continued

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	1910-11								
	BUDGET			ACTUAL			Increase or decrease		
	India	England	Total	India	England	Total	India	England	Total
<b>A — Opening Balance</b> - -	£ 11,902,400	£ 12,739,300	£ 24,641,700	£ 12,295,400	£ 12,799,100	£ 25,094,500	+ £ 393,000	+ £ 59,800	+ £ 452,800
<b>B.—Receipts</b>									
1 Revenue - - - - -	74,813,000	641,400	75,454,400	79,706,600	975,900	80,682,500	+ 4,893,600	+ 334,500	+ 5,228,100
2 Capital received from Railway Companies - - -	254,800	2,597,500	2,852,300	80,800	2,294,300	2,375,100	- 174,000	- 303,200	- 477,200
3 Loans issued for the requirements of the current year	1,000,000	2,339,600	3,339,600	1,000,000	3,014,800	4,014,800	-	+ 175,200	+ 175,200
3a Loans issued in advance for the requirements of the following year	-	-	-	-	2,210,000	2,210,000	-	+ 2,210,000	+ 2,210,000
4 Unfunded Debt (net) - - - - -	1,119,200	-	1,119,200	1,164,900	-	1,164,900	+ 45,700	-	+ 45,700
5 Deposits and Advances (net)* - - - - -	833,500	9,800	843,300	1,029,000	99,700	1,128,700	+ 195,500	+ 89,900	+ 285,400
6 Miscellaneous Remittances (net) - - - - -	618,500	- 58,200	560,300	- 298,900	502,300	203,400	- 917,400	+ 560,500	- 356,900
7 Council Bills and Transfers - - - - -	-	15,500,000	15,500,000	-	23,638,300	23,638,300	-	+ 8,138,300	+ 8,138,300
<b>Total Receipts</b> - - - - -	78,639,000	21,530,100	100,169,100	82,682,400	32,735,300	115,417,700	+ 4,043,400	+ 11,205,200	+ 15,248,600
<b>C.—Disbursements</b>									
8 Expenditure chargeable to Revenue - - - - -	56,004,700	19,695,900	75,700,600	55,203,400	19,581,500	74,784,900	- 801,300	- 114,400	- 915,700
9 Capital outlay on Railways and Irrigation Works	6,564,400	6,239,700	12,804,100	3,548,800	5,188,000	8,736,800	- 3,015,600	- 1,051,700	- 4,067,300
10 Discharge of Debt - - - - -	128,400	3,067,900	3,196,300	164,100	4,067,900	4,232,000	+ 35,700	+ 1,000,000	+ 1,035,700
11 Loans and Advances (net) - - - - -	- 129,300	-	- 129,300	- 750,200	-	- 750,200	- 620,900	-	- 620,900
12 Council Bills and Transfers - - - - -	15,503,900	-	15,503,900	23,244,800	-	23,244,800	+ 7,740,900	-	+ 7,740,900
<b>Total Disbursements</b> - - - - -	78,072,100	29,003,500	107,075,600	81,410,900	28,837,400	110,248,300	+ 3,338,800	- 166,100	+ 3,172,700
<b>D.—Closing Balance</b> - - - - -	£ 12,469,300	£ 5,265,900	£ 17,735,200	£ 13,566,900	£ 16,697,000	£ 30,263,900	+ 1,097,600	+ 11,431,100	+ 12,528,700

ROYAL COMMISSION ON INDIAN FINANCE

\* Including Capital Account of Local Boards, but excluding Provincial Adjustments and Cash held on behalf of the Gold Standard Reserve

	1911-12								
	BUDGET			ACTUAL			Increase or decrease		
	India	England	Total	India	England	Total	India	England	Total
<b>A.—Opening Balance</b>	£ 12,465,500	£ 16,055,500	£ 28,521,000	£ 13,566,900	£ 16,697,000	£ 30,263,900	£ +1,101,400	£ +641,500	£ +1,742,900
<b>B.—Receipts</b>									
1 Revenue	77,228,700	806,200	78,034,900	81,743,400	1,092,400	82,835,800	+4,514,700	+286,200	+4,800,900
2 Capital received from Railway Companies	31,200	1,357,500	1,388,700	49,900	—	49,900	+18,700	-1,357,500	-1,338,800
3 Loans issued	1,333,300	3,137,500	4,470,800	1,333,300	2,855,100	4,188,400	—	-282,400	-282,400
4 Unfunded Debt (net)	1,123,300	—	1,123,300	1,815,200	—	1,815,200	+691,900	—	+691,900
5 Deposits and Advances (net)*	376,000	700	376,700	1,697,200	-46,600	1,650,600	+1,321,200	-47,300	+1,273,900
6 Miscellaneous Remittances (net)	-282,900	285,100	2,200	-829,000	578,500	49,500	-246,100	+293,400	+47,300
7 Council Bills and Transfers	—	15,825,000	15,825,000	—	25,070,200	25,070,200	—	+9,245,200	+9,245,200
<b>Total Receipts</b>	<b>79,809,600</b>	<b>21,412,000</b>	<b>101,221,600</b>	<b>86,110,000</b>	<b>29,549,600</b>	<b>115,659,600</b>	<b>+6,300,400</b>	<b>+8,137,600</b>	<b>+14,438,000</b>
<b>C.—Disbursements</b>									
8 Expenditure chargeable to Revenue	59,020,100	19,911,600	78,931,700	57,968,700	19,957,700	77,926,400	-1,051,400	+46,100	-1,005,300
9 Capital outlay on Railways, Irrigation Works, and Delhi	4,757,100	6,041,500	10,798,600	4,419,000	5,082,700	9,501,700	-338,100	-958,800	-1,296,900
10 Discharge of Debt	105,700	2,776,200	2,881,900	89,100	2,816,200	2,905,300	-16,600	+40,000	+32,400
11 Loans and Advances (net)	83,300	—	83,300	-8,600	—	-8,600	-92,100	—	-92,100
12 Council Bills and Transfers	15,825,700	—	15,825,700	24,929,200	—	24,929,200	+9,103,500	—	+9,103,500
<b>Total Disbursements</b>	<b>79,791,900</b>	<b>28,729,300</b>	<b>108,521,200</b>	<b>87,397,200</b>	<b>27,856,600</b>	<b>115,253,800</b>	<b>+7,605,300</b>	<b>-872,700</b>	<b>+6,732,600</b>
<b>D.—Closing Balance</b>	<b>12,483,200</b>	<b>8,738,200</b>	<b>21,221,400</b>	<b>12,279,700</b>	<b>18,390,000</b>	<b>30,669,700</b>	<b>+203,500</b>	<b>+9,651,800</b>	<b>+9,855,300</b>

\*Including Capital Account of Local Boards but excluding Provincial Adjustments and Cash held on behalf of the Gold Standard Reserve

## STATEMENT A—continued

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## Receipts, Disbursements, and Balances in India and England, from 1907-08 to 1913-14

	1912-13.								
	BUDGET			REVISED ESTIMATE			Increase or decrease		
	India	England	Total	India	England	Total	India	England	Total
<b>A.—Opening Balance</b> - -	£ 11,808,200	£ 18,320,600	£ 30,128,800	£ 12,279,700	£ 18,390,000	£ 30,669,700	£ +471,500	£ +69,400	£ +540,900
<b>B.—Receipts</b>									
1 Revenue - - - - -	78,609,500	744,500	79,354,000	86,082,100	970,300	87,052,400	+7,472,600	+225,800	+7,698,400
2 Capital received from Railway Companies - -	150,300	1,810,000	1,960,300	50,000	495,000	545,000	-100,300	-1,315,000	-1,415,300
3 Loans issued - - - - -	2,000,000	3,000,000	5,000,000	2,000,000	3,000,000	5,000,000	—	—	—
4 Unfunded Debt (net) - - - - -	1,318,700	—	1,318,700	1,741,400	—	1,741,400	+422,700	—	+422,700
5 Deposits and Advances (net)* - - - - -	401,000	—	401,000	969,100	-171,500	788,600	+559,100	-171,500	+387,600
6 Miscellaneous Remittances (net) - - - - -	-391,000	394,400	3,400	6,165,400	-6,007,800	157,600	+6,556,400	-6,402,200	+154,200
7 Council Bills and Transfers - - - - -	—	15,500,000	15,500,000	—	25,660,000	25,660,000	—	+10,160,000	+10,160,000
<b>Total Receipts</b> - - - - -	82,088,500	21,448,900	103,537,400	96,999,000	23,946,000	120,945,000	+14,910,500	+2,497,100	+17,407,600
<b>C.—Disbursements</b>									
8 Expenditure chargeable to Revenue - - - - -	59,390,500	20,042,900	79,433,400	59,176,600	20,408,200	79,584,800	-213,900	+365,300	+151,400
9 Capital outlay on Railways, Irrigation Works, and Delhi - - - - -	5,372,500	6,527,200	11,899,700	4,588,800	7,077,300	11,666,100	-783,700	+550,100	-233,600
10 Discharge of Debt - - - - -	91,300	6,477,600	6,568,900	85,400	6,477,600	6,563,000	-5,900	—	-5,900
11 Loans and Advances (net) - - - - -	405,400	—	405,400	9,300	—	9,300	-396,100	—	-396,100
12 Council Bills and Transfers - - - - -	15,769,000	—	15,769,000	25,874,700	—	25,874,700	+10,105,700	—	+10,105,700
<b>Total Disbursements</b> - - - - -	81,028,700	33,047,700	114,076,400	89,734,800	33,963,100	123,697,900	+8,706,100	+915,400	+9,621,500
<b>D.—Closing Balance</b> - - - - -	£ 12,868,000	£ 6,721,800	£ 19,589,800	£ 19,543,900	£ 8,372,900	£ 27,916,800	£ +6,675,900	£ +1,651,100	£ +8,327,000

\* Including Capital Account of Local Boards, but excluding Provincial Adjustments and Cash held on behalf of the Gold Standard Reserve

ROYAL COMMISSION ON INDIAN FINANCE

	1913-14		
	Rupee		
	India.	England	Total
<b>A.—Opening Balance</b> - -	₹ 19,543,900	₹ 8,372,900	₹ 27,916,800
<b>B.—Receipts</b>			
1 Revenue - - - -	81,522,600	801,900	82,324,500
2 Capital received from Railway Companies - -	156,100	3,000,000	3,156,100
3 Loans issued - - - -	2,000,000	—	2,000,000
4 Unfunded Debt (net) - - - -	1,501,400	—	1,501,400
5 Deposits and Advances (net)* - - - -	657,800	—400	657,400
6 Miscellaneous Remittances (net) - - - -	-1,311,800	1,243,700	-68,100
7 Council Bills and Transfers - - - -	—	21,650,000	21,650,000
<b>Total Receipts</b> - -	<b>84,526,100</b>	<b>26,695,200</b>	<b>111,221,300</b>
<b>C.—Disbursements</b>			
8 Expenditure chargeable to Revenue - - - -	63,529,500	20,381,300	83,910,800
9 Capital outlay on Railways, Irrigation Works, and Delhs - - - -	6,143,700	8,813,200	14,956,900
10 Discharge of Debt - - - -	87,300	1,781,200	1,868,500
11 Loans and Advances (net) - - - -	112,800	—	112,800
12 Council Bills and Transfers - - - -	21,650,000	—	21,650,000
<b>Total Disbursements</b> - -	<b>91,523,300</b>	<b>30,975,700</b>	<b>122,499,000</b>
<b>D.—Closing Balance</b> - -	<b>12,546,700</b>	<b>4,092,400</b>	<b>16,639,100</b>

\* Including Capital Account of Local Boards, but excluding Provincial Adjustments and Cash held on behalf of the Gold Standard Reserve

## STATEMENT B

Closing Balances in India and England on 31st March from 1893 to 1914 (rupees are converted at Rs 15 = £1)

*Omitting Cash held on behalf of Gold Standard Reserve*

Year ending	Budget			Actual			Adjusted Actuals, i.e., Actuals after deducting amounts shown in footnotes		
	India	England	Total	India	England	Total	India	England	Total
31st March 1893	£ 8,865,896	£ 2,176,150	£ 11,042,046	£ 10,181,171	£ 2,268,385	£ 12,449,556	£	£	£
„ 1894	8,428,737	1,972,526	10,401,263	17,043,725	1,300,564	18,344,289			
„ 1895	14,456,171	1,711,488	16,167,659	15,019,659	2,503,124	17,522,783			
„ 1896	10,708,459	1,676,464	12,384,923	11,000,340	3,393,798	14,394,138			
„ 1897	9,370,659	2,463,824	11,834,483	9,249,168	2,832,354	12,081,522			
„ 1898	8,881,140	2,271,298	11,152,438	10,654,962	2,534,244	13,189,206			
„ 1899	10,805,968	2,242,854	13,048,822	11,177,669	3,145,768	14,323,437			
„ 1900	11,119,629	2,817,344	13,936,973	8,425,827	3,330,943	11,756,770			
„ 1901	9,066,869	2,021,568	11,088,437	8,767,687	4,091,926	12,859,613			
„ 1902	10,500,327	2,605,943	13,106,270	11,880,301	6,693,137	18,573,438			



"	1903	-	-	10,832,381	4,050,726	14,883,107	12,081,388	5,767,787	17,849,175			
"	1904	-	-	11,496,301	3,934,637	15,430,938	11,702,394	7,294,782	18,997,176			
"	1905	-	-	11,060,616	4,567,287	15,627,903	10,597,770	10,262,581	20,860,351			
"	1906	-	-	12,160,052	5,323,182	17,483,234	11,494,578	8,436,519	19,981,097			
"	1907	-	-	12,305,770	5,218,981	17,524,751	10,026,932	5,606,812	15,633,744			
"	1908	-	-	12,368,757	3,437,119	15,805,876	12,851,413	4,607,266 <sup>1</sup>	17,458,679 <sup>1</sup>	12,851,413	474,266	13,325,679
"	1909	-	-	11,870,137	3,759,012	15,629,149	10,235,483	7,983,898 <sup>2</sup>	18,219,381 <sup>2</sup>	10,235,483	5,508,898	13,744,381
"	1910	-	-	12,262,563	3,328,689	15,591,252	12,295,428	12,799,094 <sup>3</sup>	25,074,522 <sup>3</sup>	12,295,428	-6,429,094	18,724,522
"	1911	-	-	12,469,327	5,265,915	17,735,242	13,566,922	16,696,990 <sup>4</sup>	30,263,912 <sup>4</sup>	13,566,922	12,583,990	26,150,912
"	1912	-	-	12,483,228	8,738,218 <sup>5</sup>	21,221,446 <sup>5</sup>	12,279,689	18,390,013 <sup>6</sup>	30,669,702 <sup>6</sup>	12,279,689	15,246,013	27,525,702
"	1913	-	-	12,868,022	6,721,849	19,589,871	19,543,900 (Revised Estimate)	8,372,900 (Revised Estimate)	27,916,800 (Revised Estimate)			
"	1914	-	-	12,546,700	4,092,400	16,639,100						

<sup>1</sup> Including 4,183,000/ received from loan issued in January 1908 towards capital requirements of 1908-09

<sup>2</sup> Including 4,475,000/ received from loan issued in February 1909 towards capital requirements of 1909-10

<sup>3</sup> Including 6,370,000/ received from loan issued in January 1910 to provide for capital requirements of 1910-11

<sup>4</sup> Including 2,210,000/ received from loan raised in 1910-11 towards providing for capital requirements of 1911-12, and 1,903,000/ being part of "Opium Surplus" received in 1910-II and specially held towards providing for the discharge of temporary debt after 1911-12

<sup>5</sup> Including the 1,903,000/ shown in Note 4

<sup>6</sup> Including 8,144,000/ specially held towards providing for the discharge of temporary debt after 1911-12 (viz, the 1,903,000/ shown in Notes 4 and 5, and 6,241,000/ from "Opium Surplus" received in 1911-12)

STATEMENT C

DISTRIBUTION OF BALANCES\* IN INDIA, 1895-96, 1900-01, 1905-06, 1910-11, 1911-12, 1912-13 (Rupees are converted at Rs 15 = £1)

76

	(1) In the Head Offices of the three Presidency Banks	(2) In the three Reserve Treasuries	(3) In District Treasuries and Branches of Presidency Banks						(4) Total of columns 1, 2, & 3	(5) Total in Presidency Banks, (column 1 + column 3 (b))
			Number of District Treasuries	(a) In District Treasuries †	Number of Branches	(b) In Branches of Presidency Banks †	Total	Total of (a) and (b)		
30th June 1895 - - -	1,020,867	4,921,000		—		—		8,193,266	14,135,133	—
30th September 1895 - - -	1,041,667	1,311,600		—		—		6,814,533	9,167,800	—
31st December 1895 - - -	941,333	581,667		—		—		5,589,800	7,112,800	—
31st March 1896 - - -	1,055,000	1,434,867	253	6,696,200	29	1,814,200	281	8,510,400	11,000,267	2,869,200
30th June 1900 - - -	1,059,400	1,460,667		—		—		6,230,333	8,750,400	—
30th September 1900 - - -	1,106,867	1,041,800		—		—		4,367,333	6,516,000	—
31st December 1900 - - -	1,094,333	1,379,200		—		—		4,222,667	6,696,200	—
31st March 1901 - - -	948,333	2,581,467	255	5,841,333	29	1,227,800	284	7,069,133	10,598,933	2,176,133
30th June 1905 - - -	1,165,600	2,757,000		—		—		7,791,467	11,714,067	—
30th September 1905 - - -	1,128,533	3,780,133		—		—		6,419,934	11,328,600	—
31st December 1905 - - -	1,064,600	1,585,000		—		—		4,839,533	7,489,133	—
31st March 1906 - - -	1,101,867	2,732,133	266	6,875,067	26	1,072,333	292	7,947,400	11,781,400	2,174,200
30th June 1910 - - -	974,000	5,601,667		—		—		6,857,000	13,432,467	—
30th September 1910 - - -	1,356,200	4,789,133		—		—		6,293,200	12,438,533	—
31st December 1910 - - -	1,296,800	1,877,333		—		—		5,611,333	8,785,467	—
31st March 1911 - - -	1,114,467	4,437,667	270	6,384,200	36	1,630,533	306	8,014,733	13,566,867	2,745,000
30th June 1911 - - -	1,131,700	5,454,300		—		—		7,568,200	14,154,200	—
30th September 1911 - - -	1,081,500	3,791,500		—		—		6,942,500	11,815,500	—
31st December 1911 - - -	1,056,600	2,143,300		—		—		6,540,800	9,740,700	—
31st March 1912 - - -	1,402,500	3,506,000	270	5,790,700	36	1,580,500	306	7,371,200	12,279,700	2,983,000
30th June 1912 - - -	1,418,800	6,308,900		—		—		6,945,400	14,673,100	—
30th September 1912 - - -	1,336,500	9,657,600		—		—		6,429,500	17,423,600	—
31st December 1912 - - -	1,201,900	7,078,700		—		—		6,382,100	14,662,700	—
31st March 1913 - - -	1,595,400	8,908,700	271	6,607,400	35	2,156,700	306	8,764,100	19,268,200	3,752,100

ROYAL COMMISSION ON INDIAN FINANCE

\* It has not been found possible to eliminate sums temporarily held in the Balances pending transfer to the Gold, Standard Reserve The sums in question are —On 31st March 1901, 1,831,294, on 31st March 1906, 286,879† Figures not available except for 31st March in each year

## STATEMENT D.

**Liabilities and Assets of the Presidency  
Banks, 1890, 1891, 1892, 1910, 1911,  
and 1912.**

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The figures in the tables below are taken from the  
last Weekly Statement for each Quarter

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## BANK OF BENGAL.

Last week in	Liabilities					Assets				Percentage of Public Deposits to Capital and Reserve	Percentage of Public Deposits to Cash and Currency Notes
	Capital and Reserve	Public Deposits (Liabilities to Government)			Other Liabilities	Securities	Advances, Loans, Credits, Bills discounted, &c	Sundries	Cash and Currency Notes		
		Head Office	Branches	Total							
	Rs	Rs	Rs	Rs	Rs	Rs	Rs	Rs	Rs.		
Mar 1890 -	2,58,00,000			1,85,52,686	3,06,83,656	83,53,418	4,98,59,027	21,68,749	1,46,55,148	71.7	126 5
June 1890 -	2,58,00,000			2,37,52,215	4,08,59,140	1,68,63,061	3,79,24,027	19,84,570	3,36,39,696	91 8	70 5
Sept 1890 -	2,47,00,000			2,01,69,391	6,04,90,560	2,20,10,041	2,48,43,976	26,58,705	5,58,47,227	81 8	36
Dec 1890 -	2,47,00,000			1,97,59,184	7,09,95,600	2,08,81,880	2,83,11,447	36,40,181	6,26,21,275	80 1	31 6
Mar 1891 -	2,47,00,000			2,01,59,164	5,94,37,985	1,69,69,128	4,22,27,252	43,31,718	4,07,69,049	81 7	49 5
June 1891 -	2,47,00,000			2,75,29,090	7,39,34,066	2,13,48,035	3,54,18,810	45,31,799	6,48,64,501	111 3	42 4
Sept 1891 -	2,47,00,000			2,07,10,080	6,56,73,436	2,04,87,084	3,43,88,616	52,99,121	5,09,08,694	83 8	40 7
Dec 1891 -	2,47,00,000			1,64,18,257	6,60,66,550	1,79,02,114	3,88,37,357	59,05,948	4,45,39,387	66 4	36 8
Mar 1892 -	2,47,00,000			2,17,48,438	4,83,55,805	1,20,87,465	4,96,56,275	36,57,690	2,94,02,813	89 8	74
June 1892 -	2,47,00,000			1,75,98,538	5,63,19,486	1,87,97,304	4,20,82,727	33,47,588	3,43,90,404	71 3	51 1
Sept 1892 -	2,48,00,000			1,83,07,088	5,84,55,027	1,64,80,765	3,30,98,139	29,08,377	4,90,74,833	73 8	37 2
Dec 1892 -	2,48,00,000			1,41,10,165	5,83,21,163	1,16,28,352	4,60,59,017	30,84,101	3,64,59,857	56 8	38 6
									Average -	79 5	52 9
Mar 1910 -	3,70,00,000	79,19,657	1,12,51,669	1,91,71,327	16,71,61,511	3,95,91,982	13,07,91,832	23,86,260	5,05,62,763	51 9	37 9
June 1910 -	3,70,00,000	91,69,365	94,79,310	1,86,48,675	17,76,76,815	3,34,16,280	10,67,62,777	22,94,849	9,08,51,584	50 3	20 5
Sept 1910 -	3,73,00,000	84,05,073	1,09,07,159	1,93,12,232	13,10,88,320	3,61,56,286	11,80,80,687	24,28,262	8,10,35,317	51 7	23 8
Dec 1910 -	3,73,00,000	84,87,071	91,42,150	1,76,29,221	16,14,57,449	3,68,61,148	12,52,65,285	30,21,611	5,12,38,626	47 0	34 5
Mar 1911 -	3,75,00,000	84,25,493	1,21,50,961	2,05,76,454	16,39,02,014	3,77,53,235	12,51,47,988	23,94,665	5,66,82,580	54 9	36 3
June 1911 -	3,75,00,000	92,98,250	1,11,49,065	2,04,47,316	15,87,42,827	2,85,76,524	10,77,50,197	22,91,207	7,80,72,214	54 4	26 1
Sept 1911 -	3,79,00,000	54,76,243	1,39,04,495	1,93,80,738	16,94,52,147	3,28,10,864	12,37,83,589	24,59,972	6,76,78,459	51 2	28 6
Dec 1911 -	3,79,00,000	84,48,350	1,44,51,550	2,28,99,900	17,20,54,729	3,24,29,243	11,88,97,835	22,82,173	7,92,45,378	60 4	28 9
Mar 1912 -	3,80,00,000	87,73,354	1,04,05,560	1,91,78,915	16,60,10,826	3,11,03,588	12,33,25,083	26,45,409	6,61,15,660	50 5	29 0
June 1912 -	3,80,00,000	90,55,465	1,09,19,308	1,99,74,773	16,37,03,322	3,06,06,437	11,26,99,267	29,17,401	7,54,54,989	52 6	26 5
Sept 1912 -	3,83,00,000	99,12,783	84,17,575	1,83,30,358	18,20,19,288	3,04,84,977	11,93,22,637	29,31,046	8,59,10,986	47 8	21 4
Dec 1912 -	3,83,00,000	72,00,188	1,26,15,845	1,98,16,034	16,95,91,087	3,11,01,505	12,58,53,394	28,78,126	6,78,74,096	51 7	29 1
									Average -	52 0	28 5

## BANK OF MADRAS.

Last week in	Liabilities					Assets				Percentage of Public Deposits to Capital and Reserve	Percentage of Public Deposits to Cash and Currency Notes
	Capital and Reserve	Public Deposits (Liabilities to Government)			Other Liabilities	Securities	Advances, Loans, Credits, Bills discounted, &c	Sundries	Cash and Currency Notes		
		Head Office	Branches	Total.							
	Rs	Rs	Rs	Rs	Rs	Rs	Rs	Rs	Rs		
March 1890 -	63,50,000			66,15,961	1,96,21,068	15,66,356	2,27,36,753	3,32,380	79,51,535	104 7	83 5
June 1890 -	63,50,000			49,01,467	2,00,15,119	36,70,072	1,89,03,116	3,59,740	83,53,660	77 7	58 3
Sept 1890 -	64,00,000			35,18,388	2,23,85,258	53,30,335	1,27,55,239	3,25,166	1,88,93,002	54 7	25 2
Dec 1890 -	64,00,000			47,91,096	2,24,29,665	45,86,873	1,31,32,057	3,17,315	1,55,84,515	75	30 8
March 1891 -	64,00,000			48,72,636	2,42,27,310	40,59,364	1,96,10,739	3,43,191	1,14,86,649	76 5	42 6
June 1891 -	64,00,000			53,63,764	2,86,93,815	56,65,315	1,69,53,267	3,39,974	1,74,99,022	84 3	30 9
Sept 1891 -	64,00,000			41,50,974	2,62,35,613	79,55,002	1,38,34,315	3,24,006	1,46,73,261	65 6	28 6
Dec 1891 -	64,00,000			46,17,568	2,53,36,372	60,64,593	1,68,64,310	3,41,510	1,30,83,227	71 9	35 1
March 1892 -	64,00,000			65,18,746	2,30,33,551	37,98,089	2,20,27,195	3,45,471	97,81,537	101 5	66 3
June 1892 -	64,00,000			57,00,638	2,69,00,499	65,18,661	1,73,08,152	3,47,563	1,48,26,761	89 1	38 5
Sept 1892 -	64,00,000			35,04,351	3,08,04,435	81,82,562	1,49,35,103	3,79,206	1,72,11,909	54 7	20 5
Dec 1892 -	64,00,000			41,32,135	2,91,71,611	68,77,156	1,91,95,288	3,37,201	1,32,94,102	64 1	30 8
								Average -		76 7	40 9
March 1910 -	1,05,50,000	24,60,805	33,06,138	57,66,945	5,44,00,037	45,77,349	5,23,30,437	8,34,957	1,29,74,238	54 3	44 6
June 1910 -	1,05,50,000	27,90,736	33,85,216	61,75,953	6,60,78,421	85,70,404	4,80,48,981	10,96,420	2,50,88,568	58 5	24 7
Sept 1910 -	1,08,00,000	25,91,831	32,16,532	58,08,364	6,43,09,727	86,04,096	4,22,44,815	8,88,160	2,91,81,019	53 7	20 0
Dec 1910 -	1,08,00,000	39,75,844	32,98,196	72,74,040	5,74,73,465	85,44,716	4,76,86,662	8,64,146	1,84,51,979	67 6	39 5
March 1911 -	1,09,50,000	29,04,021	46,39,452	75,43,474	5,99,56,535	72,47,421	5,35,45,482	14,14,115	62,42,990	68 9	121 0
June 1911 -	1,09,50,000	39,97,583	37,72,743	77,70,326	6,41,53,131	85,61,555	5,03,79,880	8,86,203	2,30,45,818	71 0	33 9
Sept 1911 -	1,12,00,000	24,04,696	39,98,497	64,03,194	6,18,91,348	1,05,07,200	4,86,46,185	10,72,829	1,92,68,327	57 1	33 1
Dec 1911 -	1,12,00,000	26,83,045	32,66,425	59,49,471	6,34,16,335	1,04,52,366	5,29,21,786	6,02,710	1,65,88,942	53 5	35 5
March 1912 -	1,13,00,000	50,77,703	55,40,712	1,06,18,416	6,69,42,618	75,55,013	6,09,62,910	17,28,641	1,86,14,469	93 8	57 0
June 1912 -	1,43,00,000	38,07,821	36,98,652	75,06,474	7,20,97,019	1,07,69,593	5,93,09,883	6,67,136	2,31,56,680	52 4	32 4
Sept 1912 -	1,45,00,000	36,37,359	33,63,041	70,00,400	7,19,85,810	1,13,60,663	5,85,91,651	8,00,736	2,27,33,158	48 3	30 8
Dec 1912 -	1,45,00,000	44,71,777	31,00,795	75,72,573	7,51,38,493	1,13,34,866	6,51,41,603	10,68,566	1,96,66,031	52 4	38 6
								Average		60 2	42 6

APPENDIX II

## BANK OF BOMBAY.

Last week in	Liabilities					Assets				Percentage of Public Deposits to Capital and Reserve	Percentage of Public Deposits to Cash and Currency Notes
	Capital and Reserve	Public Deposits (Liabilities to Government)			Other Liabilities	Securities	Advances, Loans, Credits, Bills discounted, &c	Sundries	Cash and Currency Notes		
		Head Office	Branches	Total							
	Rs	Rs	Rs	Rs	Rs	Rs	Rs	Rs	Rs		
March 1890 -	1,30,00,000			1,29,71,319	2,62,54,610	50,33,338	3,83,17,389	3,98,472	84,76,730	99 8	153 0
June 1890 -	1,30,00,000			71,64,819	3,04,82,056	71,56,737	3,11,69,432	8,95,305	1,14,25,401	55 1	62 7
Sept 1890 -	1,33,00,000			90,23,630	4,59,45,721	82,58,028	1,73,17,733	4,14,455	4,22,79,135	67 9	21 3
Dec 1890 -	1,33,00,000			87,13,756	6,29,75,909	78,82,543	1,79,30,185	4,24,443	5,87,80,494	65 5	14 8
March 1891 -	1,33,50,000			1,06,13,591	3,95,73,595	63,63,617	3,19,40,311	8,16,121	2,44,17,137	79 5	43 5
June 1891 -	1,33,50,000			92,25,080	4,65,21,002	1,11,55,442	2,82,55,349	7,27,474	2,89,57,817	69 1	31 9
Sept 1891 -	1,34,00,000			98,65,873	5,82,83,492	1,24,85,159	2,35,52,416	4,12,506	4,50,99,284	73 6	21 9
Dec 1891 -	1,34,00,000			74,71,586	5,36,04,336	1,30,10,148	2,78,98,711	4,13,577	3,31,53,486	55 8	22 6
March 1892 -	1,34,50,000			1,25,91,465	3,47,19,133	1,21,05,405	3,32,07,551	4,14,872	1,50,32,770	93 6	84 0
June 1892 -	1,34,50,000			1,01,00,476	4,11,94,516	1,14,10,109	3,13,53,978	7,07,042	2,12,73,863	75 1	47 4
Sept 1892 -	1,36,50,000			83,89,167	5,19,11,393	1,20,68,680	2,23,16,342	4,07,689	3,91,57,849	61 5	21 5
Dec 1892 -	1,36,50,000			87,47,389	4,86,96,149	1,11,84,930	3,44,96,453	8,41,034	2,45,71,121	64 1	35 4
								Average -		71 7	46 7
March 1910 -	203,00,000	61,46,061	1,24,88,067	1,86,34,128	9,51,85,436	1,54,86,507	8,48,26,159	7,62,746	3,30,44,152	91 6	56 3
June 1910 -	203,00,000	50,74,651	71,81,283	1,22,55,934	10,38,63,727	1,65,03,863	7,40,81,755	18,61,110	4,39,72,933	60 9	28 0
Sept 1910 -	205,00,000	47,85,354	64,38,316	1,12,23,670	13,16,84,334	2,05,60,242	7,69,72,161	9,29,460	6,49,46,141	54 6	17 5
Dec 1910 -	205,00,000	69,89,148	82,59,559	1,52,48,707	10,82,47,946	1,49,16,850	8,33,34,072	21,29,636	4,36,16,095	74 2	34 8
March 1911 -	205,00,000	57,43,086	1,16,91,015	1,74,34,101	10,29,40,161	1,41,55,372	8,72,60,354	20,41,565	3,74,16,971	84 9	46 5
June 1911 -	205,00,000	58,17,700	74,83,879	1,33,01,579	10,89,25,332	1,56,72,718	7,81,90,851	26,31,986	4,62,31,356	64 9	28 8
Sept 1911 -	206,00,000	63,40,886	62,16,549	1,25,57,435	12,44,31,876	2,30,61,099	6,52,60,614	14,35,707	6,78,31,891	61 1	18 5
Dec 1911 -	206,00,000	46,24,982	61,64,312	1,07,89,294	11,32,12,272	2,08,74,533	7,54,52,281	19,65,405	4,63,09,347	52 4	23 3
March 1912 -	206,00,000	70,69,414	1,00,69,083	1,71,38,497	11,04,58,190	2,31,04,564	7,61,30,268	12,26,634	4,77,35,221	83 0	35 8
June 1912 -	206,00,000	83,70,694	71,90,040	1,55,60,734	10,31,15,450	2,04,79,997	6,44,08,149	29,24,594	5,14,63,444	75 7	30 1
Sept 1912 -	206,00,000	67,05,630	72,68,566	1,39,74,196	11,42,00,231	2,44,78,531	7,19,82,310	15,63,013	5,07,50,573	67 9	27 4
Dec 1912 -	206,00,000	44,87,113	59,97,176	1,04,84,289	11,47,52,062	2,10,94,639	8,96,94,187	15,41,958	3,35,05,567	51 0	31 3
								Average -		68 5	31 5

STATEMENT E

Net Revenue and Expenditure of the Government of India (excluding Provincial Adjustments) 1909-10 to 1913-14.

	1909-10			1910-11			1911-12			1912-13			Total improvement or deterioration in four years	1913-14 Budget
	Budget.	Actual	Better (+) or worse (-)	Budget	Actual	Better (+) or worse (-)	Budget	Actual	Better (+) or worse (-)	Budget	Revised Estimate	Better (+) or worse (-)		
<b>NET REVENUE —</b>	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Land Revenue, For ests, and Tributes	22,343,500	22,673,220	+ 329,720	22,563,500	22,343,943	- 219,557	22,950,800	22,339,617	- 610,983	22,893,800	23,035,400	+ 141,600	- 359,320	23,040,800
Opium . . . . .	3,314,300	4,195,614	+ 881,314	3,550,100	6,271,531	+ 2,721,431	3,093,300	5,228,212	+ 2,134,912	2,930,700	4,503,500	+ 1,572,800	+ 7,310,457	306,000
Taxation . . . . .	21,076,600	21,382,953	- 293,647	23,120,900	23,689,945	+ 568,945	23,594,900	24,350,768	+ 755,868	24,745,200	25,815,600	+ 1,070,400	+ 2,101,566	25,654,200
Commercial Under taking (including Railways)	1,908,700	1,341,267	- 567,433	941,600	2,668,240	+ 1,726,640	2,398,200	4,712,339	+ 2,314,039	2,768,400	6,831,800	+ 4,063,400	+ 7,541,666	5,656,000
Mint and Exchange	41,700	26,876	- 14,824	50,800	173,825	+ 123,025	104,700	356,290	+ 251,590	104,300	499,000	+ 394,700	+ 754,291	170,200
<b>Total</b>	<b>49,279,800</b>	<b>49,619,750</b>	<b>+ 339,950</b>	<b>50,226,900</b>	<b>55,147,284</b>	<b>+ 4,920,384</b>	<b>52,141,700</b>	<b>56,987,126</b>	<b>+ 4,845,426</b>	<b>53,442,400</b>	<b>60,685,400</b>	<b>+ 7,242,900</b>	<b>+ 17,348,660</b>	<b>54,836,200</b>
<b>NET EXPENDITURE:—</b>														
Debt Services	978,800	930,702	- 47,598	1,027,600	703,463	- 324,137	945,100	588,994	- 356,106	817,900	344,000	- 473,900	- 1,204,741	22,700
Military Services .	19,658,000	19,112,323	- 545,677	19,706,500	19,265,042	- 441,458	19,575,200	19,558,580	- 16,620	19,094,500	19,635,400	+ 540,900	- 457,855	19,646,300
Collection of Revenue, Civil Services and Famine Relief, and Insurance	28,618,100	28,076,048	- 542,052	29,789,000	29,281,290	- 507,710	32,515,200	31,930,134	- 585,066	33,609,400	33,288,300	- 321,100	- 1,955,928	36,753,000
<b>Total</b>	<b>49,249,400</b>	<b>48,119,073</b>	<b>- 1,130,327</b>	<b>50,473,100</b>	<b>49,249,795</b>	<b>- 1,223,305</b>	<b>53,088,500</b>	<b>52,077,708</b>	<b>- 960,792</b>	<b>53,521,800</b>	<b>53,217,700</b>	<b>- 304,100</b>	<b>- 3,618,524</b>	<b>56,422,500</b>
<b>Excess (+) or deficit (-) of Revenue</b>	<b>+ 30,400</b>	<b>+ 1,500,677</b>	<b>+ 1,470,277</b>	<b>- 246,200</b>	<b>+ 5,897,489</b>	<b>+ 6,143,689</b>	<b>- 896,800</b>	<b>+ 4,909,418</b>	<b>+ 5,806,218</b>	<b>- 79,400</b>	<b>+ 17,467,600</b>	<b>+ 7,547,000</b>	<b>+ 20,967,184</b>	<b>- 1,586,300</b>

1909

75

APPENDIX II

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## STATEMENT F

## SALES OF COUNCIL BILLS AND TELEGRAPHIC TRANSFERS 1893-94 to 1912-13

Year	Budget			Actual				Excess (+) or Deficiency (-) of Actuals as compared with Budget	Amount paid for Bills on the Secretary of State drawn and sold by the Government of India for support of Exchange
	For Paper Currency Reserve	For General Purposes	Total	Appropriated to Gold Standard Reserve	Appropriated to Paper Currency Reserve for Purchase of Securities, or in Gold	Used for General Purposes, including Purchase of Silver	Total		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1893-94	—	18,700,000	18,700,000	—	—	9,530,235	9,530,235	-9,169,765	—
1894-95	—	17,000,000	17,000,000	—	—	16,905,102	16,905,102	-94,898	—
1895-96	—	17,000,000	17,000,000	—	—	17,664,492	17,664,492	+664,492	—
1896-97	—	16,500,000	16,500,000	—	—	15,526,647	15,526,647	-973,353	—
1897-98	—	13,000,000	13,000,000	—	—	*8,836,688	8,836,688	-4,163,312	—
1898-99	—	16,000,000	16,000,000	—	—	18,692,377	18,692,377	+2,692,377	—
1899-1900	—	17,000,000	17,000,000	—	1,500,000	17,567,022	19,067,022	+2,067,022	—
1900-01	—	16,440,000	16,440,000	—	100,000	13,200,277	13,300,277	-3,139,723	—
1901-02	—	16,500,000	16,500,000	1,939,093	—	16,599,978	18,539,071	+2,039,071	—
1902-03	—	16,500,000	16,500,000	263,000	—	18,236,946	18,499,946	+1,999,946	—
1903-04	—	17,000,000	17,000,000	2,200,000	—	21,669,303	23,669,303	+6,669,303	—
1904-05	—	16,500,000	16,500,000	700,396	—	23,725,162	24,425,568	+7,925,568	—
1905-06	1,333,000	16,500,000	17,833,000	3,543,000	1,333,333	27,290,640	32,166,973	+14,333,973	—
1906-07	—	17,800,000	17,800,000	—	2,775,000	30,382,196	33,157,196	+15,357,196	—
1907-08	—	18,100,000	18,100,000	526,324	925,000	14,780,738	16,232,062	-1,867,938	—
1908-09	—	18,500,000	18,500,000	1,491,487	—	12,423,939	13,915,426	-4,584,574	8,068,000
1909-10	—	16,200,000	16,200,000	8,090,000	1,000,000	18,006,586	27,096,586	+10,896,586	156,000
1910-11	—	15,500,000	15,500,000	600,000	2,545,000	23,638,308	26,783,303	+11,283,303	—
1911-12	1,333,300	15,825,000	17,158,300	—	1,988,333	25,070,217	27,068,550	+9,900,250	—
1912-13	—	15,500,000	15,500,000	—	—	25,759,706	25,759,706	+10,259,706	—
	2,666,300	332,065,000	334,731,300	19,353,300	12,166,666	375,486,454	407,016,420	+72,285,120	8,214,000

\* 9,506,077/1 less 669,389/1 for purchase by Secretary of State of Bills on Indian banks

The figures in column 6 differ from those in the General Purposes columns of the Appendix to the Memorandum on India Office Balances for the following reasons —

1902-03 includes 285,000/1 for the purchase of silver  
 1903-04 includes 4,055,327/1 for the purchase of silver  
 1904-05 includes 4,540,378/1 for the purchase of silver  
 1905-06 includes 8,118,043/1 for the purchase of silver  
 1906-07 includes 10,720,929/1 for the purchase of silver  
 1907-08 includes 1,191,255/1 for the purchase of silver  
 1909-10 includes 156,000/1 for Bills sold in India



STATEMENT G  
SUMMARY OF INDIA OFFICE TRANSACTIONS, 1909-10 TO 1913-14

	1909-10			1910-11			1911-12			1912-13			1913-14
	Budget	Actual	Difference	Budget	Actual	Difference	Budget	Actual	Difference	Budget	Revised Estimate	Difference	Budget
Opening Balance	£ 7,697,989	£ 7,983,888	+ 285,909	£ 12,739,297	£ 12,799,090	+ 59,793	£ 16,055,518	£ 16,696,991	+ 641,473	£ 18,320,649	£ 18,390,000	+ 69,351	£ 8,372,900
Receipts —													
Bills and Transfers	16,200,000	18,006,566	+ 1,806,566	15,500,000	23,638,303	+ 8,138,303	15,825,000	25,070,216	+ 9,245,216	15,500,000	25,060,000	+ 10,160,000	21,650,000
Gold from India	—	—	—	—	—	—	—	—	—	—	327,900	+ 327,900	460,000
Loans issued in advance for the requirements of the following year	—	6,370,000	+ 6,370,000	—	2,210,000	+ 2,210,000	—	—	—	—	—	—	—
Other Loans	5,223,700	5,158,999	- 64,701	5,437,100	5,309,098	- 128,002	4,495,000	2,855,103	- 1,639,897	4,810,000	3,495,000	- 1,315,000	3,000,000
Total Receipts	21,423,700	29,585,565	+ 8,111,865	20,937,100	31,157,401	+ 10,220,301	20,320,000	27,925,319	+ 7,605,319	20,310,000	29,482,900	+ 9,172,900	25,100,000
Disbursements —													
Capital Outlay on Rail ways and Irrigation Works	6,832,700	5,747,714	- 1,084,986	6,239,700	5,187,962	- 1,051,738	6,041,500	5,082,747	- 958,753	6,527,200	7,077,300	+ 550,100	8,813,200
Discharge of Debt	179,400	209,400	+ 30,000	3,067,900	4,097,900	+ 1,030,000	2,776,200	2,816,200	+ 40,000	6,477,600	6,477,600	—	1,781,200
Other Payments (net)	18,780,900	18,763,279	- 17,621	19,102,900	18,003,638	- 1,099,262	18,819,600	18,338,350	- 481,250	18,904,000	25,945,100	+ 7,041,100	18,788,100
Total Disbursements	25,793,000	24,720,393	- 1,072,607	28,410,500	27,289,500	- 1,121,000	27,637,300	26,232,297	- 1,405,003	31,008,800	39,500,000	+ 7,591,200	29,380,500
Increase or Decrease of Balance	- 4,369,300	+ 4,815,192	+ 9,184,492	- 7,473,400	+ 3,897,901	+ 11,371,301	- 7,317,300	+ 1,693,022	+ 9,010,322	- 11,598,800	- 10,017,100	+ 1,581,700	- 4,280,500
Closing Balance	3,328,689	12,799,080	+ 9,470,401	5,265,897	16,096,991	+ 11,431,094	8,738,218	18,390,013	+ 9,651,795	6,721,849	8,372,900	+ 1,651,051	4,092,400

APPENDIX II

## STATEMENT H

18

(1)—IMPORTS, EXPORTS, AND ABSORPTION OF BRITISH GOLD COIN, FROM 1901-02 to 1912-13

Years	Imports			Exports	Net Imports	Net issues from (+) or Net Receipts into (-) Govern- ment Reserves and Treasuries (Columns (7) and (8) of State- ment H (2) below) (6)	Net Absorption		
	Tendered to Government (1)	Not so Tendered (2)	Total (3)				After passing through Government Reserves and Treasuries (7) = (1) - (4) ± (6)	Direct Absorption (8) = (2)	Total (9) = (5) ± (6)
1901-02 - -	£	£	£	£	£	£	£	£	£
			3,517,000	1,762,000	1,755,000	-778,000			977,000
1902-03 - -			5,812,000	766,000	5,046,000	-2,894,000			2,152,000
1903-04 - -			8,656,000	4,358,000	4,298,000	-1,015,000			3,283,000
1904-05 - -			8,690,000	5,718,000	2,972,000	-29,000			2,943,000
1905-06 - -	2,964,000	1,030,000	3,994,000	7,106,000	-3,112,000	+6,909,000	2,767,000	1,030,000	3,797,000
1906-07 - -	4,165,000	1,196,000	5,361,000	410,000	4,951,000	+184,000	3,939,000	1,196,000	5,135,000
1907-08 - -	5,261,000	1,185,000	6,446,000	12,000	6,434,000	+951,000	6,200,000	1,185,000	7,385,000
1908-09 - -	75,000	1,004,000	1,079,000	454,000	625,000	+2,811,000	2,428,000	1,004,000	3,432,000
1909-10 - -	7,139,000	2,102,000	9,241,000	28,000	9,213,000	-6,339,000	772,000	2,102,000	2,874,000
1910-11 - -	7,626,000	914,000	8,540,000	378,000	8,162,000	-59,000	7,189,000	914,000	8,103,000
1911-12 - -	17,053,000	1,289,000	18,342,000	114,000	18,228,000	-9,344,000	7,595,000	1,289,000	8,884,000
1912-13 - -	16,939,000	856,000	17,795,000	2,559,000	15,236,000	-4,135,000	10,245,000	856,000	11,101,000
Total - -			97,473,000	23,665,000	73,808,000				60,066,000

ROYAL COMMISSION ON INDIAN FINANCE

STATEMENT H—continued

(2)—GOLD HELD IN RESERVES AND TREASURIES OF THE GOVERNMENT OF INDIA FROM 1901-02 to 1912-13

1901  
1912

Year	In Paper Currency Reserve (1)	In Gold Standard Reserve (2)	In Treasuries (3)	Total. (4)	Form in which Gold shown in column (4) was held		Net Issues or Net Receipts of British Gold Coin during year		Net Issues or Net Receipts of other Gold during year	
					British Gold Coin. (5)	Bullion and Foreign Gold Coin (6)	Net Issues (7)	Net Receipts (8)	Net Issues (9)	Net Receipts (10)
1901-02 - -	£ 7,019,000	—	£ 87,000	£ 7,106,000	£ 7,003,000	£ 103,000	—	£ 778,000	£ 787,000	—
1902-03 - -	9,859,000	—	119,000	9,978,000	9,897,000	81,000	—	2,894,000	22,000	—
1903-04 - -	10,783,000	—	134,000	10,917,000	10,912,000	5,000	—	1,015,000	76,000	—
1904-05 - -	10,739,000	—	210,000	10,949,000	10,941,000	8,000	—	29,000	—	3,000
1905-06 - -	3,826,000	—	219,000	4,045,000	4,032,000	13,000	6,909,000	—	—	5,000
1906-07 - -	3,640,000	22,000	211,000	3,873,000	3,848,000	25,000	184,000	—	—	12,000
1907-08 - -	2,713,000	—	209,000	2,922,000	2,897,000	25,000	951,000	—	—	—
1908-09 - -	23,000	—	63,000	86,000	86,000	—	2,811,000	—	25,000	—
1909-10 - -	6,202,000	—	223,000	6,425,000	6,425,000	—	—	6,339,000	—	—
1910-11 - -	6,186,000	—	298,000	6,484,000	6,484,000	—	—	59,000	—	—
1911-12 - -	15,554,000	—	274,000	15,828,000	15,828,000	—	—	9,344,000	—	—
1912-13 - -	19,583,000	—	380,000	19,963,000	19,963,000	—	—	4,135,000	—	—

APPENDIX II

## STATEMENT I

MINIMUM RATES OF DISCOUNT OF THE BANK OF BENGAL AND BANK OF BOMBAY  
1901 to 1913

Month	1901		1902		1903		1904		1905	
	Bank of Bengal	Bank of Bombay	Bank of Bengal	Bank of Bombay	Bank of Bengal	Bank of Bombay	Bank of Bengal	Bank of Bombay	Bank of Bengal	Bank of Bombay
January	7	7	5, 6, 7	5, 6, 7	5, 6, 7	5, 6, 7	6, 7	6	6	5
February	7, 8	7, 8, 9	7, 8	7, 8	7, 8	7, 8	7	6, 7, 6	6, 7	5, 6, 7
March	8, 7	9, 8, 7	8, 7	8, 7	8, 7	8, 7	7, 6	6, 5	7, 8, 7	7, 8, 7
April	7, 6, 7	7, 6, 7	7, 6	7, 6	7, 6, 5	7, 6	6, 5	5	7, 6, 5, 4	7, 6, 5
May	7	7	5	6, 5	5, 6	6, 7	5, 4	5, 4	4	5
June	7, 6, 5, 4	7, 6, 5, 4	5, 4	5, 4	6, 5	7, 6, 5	4, 3	4, 3	4	5
July	4, 3	4, 3	4, 3	4, 3	5, 4	5, 4	3	3	4, 3	5, 4, 3
August	3, 4	3, 4	3	3	4, 3	4, 3	3	3	3, 4	3, 4
Sept	4, 5	4	3	3	3	3	3	3	4, 5	4
October	5, 4	4	3, 4	3	3	3	3, 4, 5	3, 4, 5	5	4
Nov	4	4	4	3, 4	3	3	5, 6	5	5, 6	4, 5
December	4, 5	4, 5	4, 5	4, 5	3, 4, 5, 6	3, 4, 5, 6	6	5	6, 7	6, 7

  

Month	1906		1907		1908		1909			
	Bank of Bengal	Bank of Bombay	Bank of Bengal	Bank of Bombay	Bank of Bengal	Bank of Bombay	Bank of Bengal	Bank of Bombay		
January	-	-	7, 8	7, 8	9	9	6, 7, 8, 9	6, 7, 8	6, 7, 8	6, 7
February	-	-	9	9	9	9	9	8, 9	8	7
March	-	-	9, 8, 7	9, 8, 7, 6	9	9, 8	9, 8, 7	9, 8, 7	8, 7	7
April	-	-	7, 6, 5	6, 7	9, 8, 7	8	7	7, 8	7, 6	7, 6
May	-	-	5, 6, 7, 6	7, 6	7, 6, 5	8, 7, 6	7, 6	8, 7	6, 5	7, 6
June	-	-	6, 5, 4	6, 5	5	6, 7, 6, 5	6, 5	7, 6	5, 4	6, 5, 4
July	-	-	4, 3	5, 4, 3	5, 4, 3	5, 4	5, 4, 3	6, 5, 4, 3	3	4, 3
August	-	-	3, 4, 5	3, 4	3	3	3	3	3	3
September	-	-	5, 6, 7	4, 5	3, 4, 5	3, 4	3, 4	3	3, 4	3
October	-	-	7, 6	5	5	4	4	3, 4	4	3
November	-	-	6, 7, 8	5, 6, 7, 8	5, 6	4, 5	4, 5, 6	4	4, 5	3, 4, 5, 6
December	-	-	8, 9	8, 9	6	5, 6	6	4, 6	5, 6	6

  

Month	1910		1911		1912		1913			
	Bank of Bengal	Bank of Bombay	Bank of Bengal	Bank of Bombay	Bank of Bengal	Bank of Bombay	Bank of Bengal	Bank of Bombay		
January	-	-	6	6	7	7	5, 6, 7, 8	5, 6, 7	7, 8	8
February	-	-	6	6	7, 8	7	8	8	8, 7	8
March	-	-	6, 7	6, 7	8, 7	7	8, 7, 6	8, 6	7	8
April	-	-	7	7	7	7	6	6	7, 6	8, 7
May	-	-	7, 6	7, 6	7, 6	7, 6	6, 5	6, 5		
June	-	-	6, 5, 4	6, 4	5, 4	5, 4	5, 4	5, 4		
July	-	-	3	4, 3	4	4, 3	4, 3	4, 3		
August	-	-	3	3	4, 3	3	3	3		
September	-	-	3, 4	3	4, 5	3	3, 4	3		
October	-	-	4, 5	3, 4	5	3, 4	4, 5	3, 4		
November	-	-	5, 6	4, 5, 6	5	4	5, 6, 7	4, 5, 6		
December	-	-	7	6, 7	5	4, 5	7	6, 7, 8		

## APPENDIX III

MEMORANDUM AND STATEMENTS ON THE GOLD STANDARD RESERVE, submitted by Mr L ABRAHAMS, C B, Assistant Under Secretary of State for India

## I.

*General.*

1 The Gold Standard Reserve was established in accordance with the following recommendation of the Indian Currency Committee of 1898-99 —

“We also recommend that any profit on the coinage of Rupees should not be credited to the revenue or held as a portion of the ordinary balance of the Government of India, but should be kept in gold as a special reserve, entirely apart from the Paper Currency Reserve and the ordinary Treasury balances”

The form, location and amount of the reserve from 31st March 1901 to 31st March 1913 are shown in Statement A (page 97), and further particulars regarding the constitution of the portion held in England on the 31st March 1913, and the net profit realised on investments up to that date, are given in Statement B (page 98)

The chief questions for consideration regarding the Reserve appear to be those relating to —

- (1) The purposes for which it should be used
- (2) The form in which it should be held
- (3) Its location, that is, whether it should be held in England or India
- (4) Its amount, that is, whether it should be allowed to accumulate indefinitely and, if not, what limit should be placed on its accumulation

## II.

*Purposes for which the Reserve should be used*

2 The Report of the Committee of 1898-99 affords a general indication of their views as to the purpose for which they considered, or would have considered if they had specially dealt with the point, that the Reserve should be used. In paragraph 59 they say —

“We regard it as the principal use of a Gold Reserve that it should be freely available for foreign remittances whenever the exchange falls below specie point [that is, presumably, gold exporting point], and the Government of India should make its gold available for this purpose when necessary, under such conditions as the circumstances of the time may render desirable. For example, the Government of India might, if the exchange showed a tendency to fall below specie point, remit to England a portion of the gold which it may hold, a corresponding reduction being made in the drawings of the Secretary of State”

3 This remark indicates in very general terms the Committee's view of the purposes to be served by any reserve held for the support of exchange. But it was not made with special reference to the Gold Standard Reserve, and I can say from direct personal knowledge that the Committee did not consider what would be the best procedure for enabling the Gold Standard Reserve to serve the purpose indicated in general terms in the passage quoted. If any opinion had been expressed on that point in 1899, it would possibly have been of little value in 1913.

4 As a matter of fact there is, I believe, now a general consensus of opinion that the Reserve, so far as held to provide against a fall in

Exchange, should be used for two purposes, namely, to supplement temporarily the resources in London of the Secretary of State at times when he is unable to sell Council Bills except below specie exporting point, and to serve as a fund for enabling an adverse balance of trade to be liquidated without a fall in exchange. The only occasion on which it has been necessary to use the Reserve for these purposes was in 1907-08, when it was used to the extent of 933,749*l* for the former purpose and 8,058,000*l* for the latter, the procedure in the latter case being that Bills drawn by the Government of India on the Secretary of State and payable in London were offered for sale by the Government of India in each week from 26th March to 10th September 1908, at the fixed rate of 1*s* 3 $\frac{2}{3}$ *d* per rupee. Particulars of the sales will be found in Statement D (page 103).

5 A portion of the Reserve, known as the Indian Branch, is held in India, usually in rupees (*see* Statement A, page 97) and serves a different purpose from the portion held for the support of Exchange. The history of the Indian Branch and the reason for its existence are discussed in Section VI below.

### III.

#### *The form in which the Reserve should be held*

6 It is clear that so far as the Reserve is used to provide against a fall in Exchange, it must be held in a sterling form, that is, either in gold, in securities that may easily be sold for sterling, in money lent at short notice and repayable in sterling, or in bank deposits repayable in sterling. From time to time all these methods have been used. At present, as will be seen from Statement A (page 97), the portion of the Reserve held in England for the support of exchange is partly in securities, partly in money placed at short notice, and partly in gold. I believe that it is wise to hold the Reserve in these forms, though I think that some changes in detail might advantageously be made in the distribution. The advantage of holding a portion of the Reserve in securities and on loan is that, even allowing for the depreciation of securities, the profit is very large. It will be seen from Statement B (page 98) that up to the 31st March 1913 the total interest receipts amounted to 3,421,894*l*, and the loss on the sale of securities and on the depreciation of those still held was 1,121,269*l*, so that the net profit was 2,300,625*l*. It will, of course, be generally agreed that the profit would be bought too dear if the securities could not be readily realised when required. Statement B shows that the danger in this respect is not serious. Of the 15,945,669*l*, shown as the market value of the securities held on the 31st March 1913, 10,989,504*l* was in the form of securities due for early redemption at a fixed date, while 4,956,165*l* consisted of securities which the borrowing Government is either not under obligation to repay or is to repay only at a comparatively distant date and which, therefore, could be realised only by sale in the market or to some other Government department such as the Commissioners for the Reduction of the National Debt. I am of opinion that the amount of securities of this latter class should be reduced as occasion offers, though in view of the large amount of the other resources at the disposal of the Secretary of State for the support of exchange, I think that this change

\* Since 31st March 1913 2666,045 (nominal) Consols have been sold, at an average price slightly exceeding 75 $\frac{1}{2}$ , for 500,000*l*, and the proceeds have been invested in short dated securities.

25th May 1909, 500,000*l* Consols were bought (*see* page 100).

7 The existing orders relating to the form in which the portion of the Gold Standard Reserve held in London is to be kept, are contained in the Secretary of State's Despatch to the Government of India No 76 (Financial), dated the 28th June 1912, which is printed in the collection of papers that I am handing in (*see* page 201). It will be seen that, from the date of that Despatch, profits on coinage and interest on investments which become available for the English portion of the Reserve are to be held in gold until the amount so held reaches 5,000,000*l*. I am of opinion that if, when this amount has been reached, it is possible to find suitable short-dated securities, such as Treasury

Bills and Exchequer bonds, in which to invest future receipts (including the proceeds of any permanent securities that may be realised), it will be an excess of caution to hold in gold more than 5,000,000*l.*, more especially if, as I hope will be the case, the present practice of holding a portion of the Paper Currency Reserve in gold in England is continued. If, as is possible, the supply of short-dated securities is so reduced that they cannot be obtained in sufficient amount for the purposes of the Reserve, then I think that it will be better to increase the holding of gold and of loans against security than the holding of Consols or other permanent stocks.

#### IV.

##### *Location of the Reserve*

8 It is stated in Section II above that the two purposes for which the Reserve, so far as held for the support of exchange, should be used are the payment of a portion of the Secretary of State's disbursements, and the liquidation of the trade balances due by India to other countries. Payments of the former class must obviously be made in London, and payments of the latter class are regularly made in, or through, London. It would, therefore, seem that there is *prima facie* an overwhelming balance of advantage in holding in London the part of the reserve now under consideration. This course has been followed since the reserve was established.\*

9 It should be mentioned, however, that a Resolution proposed by Sir V. D. Thackersey in the Legislative Council in Calcutta on 22nd March 1912, in favour of holding a substantial part of the Reserve in gold in India, received considerable support. It seems desirable to mention some of the considerations against this change.

A It is obvious that such portion of the Reserve as might be held in a sterling form in India, could scarcely be held either in securities or in loans or deposits repayable in sterling. It would therefore be held in gold. Since India is to a very small extent a gold producing country, the greater part, if not the whole, of any gold held in India in the Reserve would be imported, and would, in all probability, reach India either from England or from Australia. There would obviously be some disadvantage in an arrangement necessitating the expense of sending from England to India gold which is intended *ex hypothesi* to be used only for the purpose of being re-exported from India to England. The same consideration would apply to gold imported from Australia, because the cost of freight and insurance on gold from Australia to India is, I believe, precisely the same as from Australia to England and from India to England, so that, if gold intended for the Reserve were sent in the first instance from Australia to India, retained in India for a time, and then sent to England, the freight and insurance charges would be paid twice instead of once.

B The holding in gold in India of any considerable part of what is now held in securities in England would obviously cause a serious loss of interest.

C When the moment arrived for using in London gold held in India, a delay of about three weeks would occur while it was being shipped to London. In critical times this might be a considerable disadvantage.

D Far more important than the considerations mentioned, is the uncertainty as to the extent to which gold held in the Reserve in India would really be used for the support of exchange. Presumably such gold, so far as not shipped to the Secretary of State to be used towards meeting the general disbursements of the India Office, would be issued to the public in exchange for rupees in the hope that it would be exported to liquidate the balance of trade indebtedness. It may be said with confidence that, in the absence of special regulations (a matter on which something is said on the next page), much of the amount issued would certainly be used for quite other purposes. The evidence in support of this statement is partly of a general nature, and partly derived from the actual course of events in 1907-08,

\* The amounts shown in Column 6 of Statement A on page 97 represent profits on coinage temporarily held in gold in India pending remittance to England for investment.

the one period since the establishment of the reserve when special measures for the support of exchange has been necessary\*.

(a) The evidence of a general nature is as follows. Since the practice of issuing gold to the public in exchange for Rupees was instituted, the rate at which issues have been made has been 1l = Rs 15, or 1s 4d per Rupee, and it is clear for reasons which I can give, if necessary, that, if sovereigns are to be issued at a time of an unfavourable trade balance for the purpose of preventing exchange from falling below gold exporting point, the rate at which they are to be issued must not be more unfavourable to the recipient than this established rate. At such a time the price in India of sovereigns other than those issued from Government reserves would be appreciably in excess of Rs 15 each, the price corresponding to an exchange rate of 1s 3½d per Rupee being Rs 15, annas 1½, per sovereign. It would, therefore, be profitable to anyone in India who desired sovereigns for use in India, to get them from Government treasuries rather than from any other source, and it may be taken as certain that, in the absence of special restrictive regulations, the whole internal demand would be met by drawing on Government treasuries and reserves, so that, up to the limit of that demand, sovereigns issued from the Gold Standard Reserve would pass into use in India for circulation, melting, or hoarding, instead of being exported to pay foreign obligations.

(b) The evidence derived from the course of events in 1907-08 will be found in Statement D in the columns headed "Diminution of Government Stock of Gold in India" and "Exports of Sovereigns and other British Gold Coins from India on private account" (page 103). It will be seen that the sovereigns held in Government treasuries and reserves in India decreased between September 1907 and December 1908 by 4,394,000l of which 215,000l represented light coin sent by the Government of India to the Secretary of State, and the remainder (4,179,000l) issues to the public in India. The export on private account during the same period amounted to 249,942l that is to say, 6 per cent of the total amount issued by the Government to the public in India during this adverse period was exported and so served the primary purpose for which, in the opinion of the Fowler Committee, reserves should be held, while 94 per cent was used for other purposes.

10 It might perhaps be possible, if the sterling part of the Gold Standard Reserve were held in gold in India, to introduce restrictive regulations for the purpose of securing that any sovereigns issued therefrom at a time of weak exchange should be exported for the purpose of meeting trade indebtedness and for no other purpose. The framing and enforcing of such regulations would possibly be a matter of considerable difficulty. There would always be a risk of evasion, and I think that such a risk should not be undertaken in view of the enormous sacrifices that India has made, and is making, in order to build up its reserve for the maintenance of exchange. I believe that the extent of these sacrifices is sometimes very imperfectly realised, and it seems worth while to give the following brief particulars to illustrate their magnitude. Under existing orders, as shown below, the sterling part of the Gold Standard Reserve is to accumulate to not less than 25,000,000l. This represents money which, if not put by for the maintenance of exchange, would presumably be used for capital expenditure on railways or irrigation works. What could be done for such a sum is shown by the fact that 25,000,000l represents approximately the total cost up to the 31st March 1912 of the Bengal-Nagpur Railway, which produced a net revenue in 1911-12 of 1,164,000l, is about 2,600 miles long, and has been, I believe, of incalculable value in increasing the prosperity and the security against famine of the vast area that it serves. Expressed in terms of irrigation works, 25,000,000l represents 70 per cent of the capital cost of the whole of the Major Irrigation Works in India up to the 31st March 1912, which produced a revenue in 1911-12 of more than 2,500,000l, and of the economic and productive value of which it is scarcely necessary to say anything. The appropriation for the maintenance of exchange, of a sum representing so vast a potentiality of financial, economic, and protective

\* I omit as insignificant the sale in September 1909 of Bills on London for 156,000l under the conditions mentioned at the end of Section II.



advantage to India is probably not excessive, but it is clear that, when so great a fund is being set aside in order to secure a particular result, it would be unwise to incur the risk of any substantial portion of its being used for other purposes, such as to enable hoarders or makers of gold ornaments to buy gold at a few pence less per ounce than they would have to pay if they could not get it from the Gold Standard Reserve

## V.

### *Amount of the Reserve*

11 The question of the amount up to which the London Branch of the Reserve should be allowed to accumulate has been discussed at various times in the last nine years. Some of the opinions expressed by responsible authorities are mentioned in Lord Morley's Financial Despatch No. 82 of 2nd July 1909, which is included in the collection of papers that I am handing in (*see* page 175). The present position is, that the whole profits on coinage and interest on investments have been added to the London Branch of the Reserve with the exception of

- (1) about 1,000,000*l* used for capital expenditure on railways in 1907-08, in accordance with the recommendation made in that year by a Committee on railway administration and finance, whose interim report is included in the collection of papers that I hand in, and
- (2) the amount held in rupees in India under the arrangement described in Section VI below

12 In his Despatch No 76 of 28th June 1912 (page 201), the Secretary of State decided that future profits on coinage and interest on investments becoming available for addition to the London Branch of the Reserve shall be added thereto in full, and no part used for any other purpose, such as capital expenditure on railways, until the London Branch shall have reached 25,000,000*l*

13 It would be possible to collect arguments from various sources regarding the sufficiency of the figure mentioned, but I think that the best guidance can be obtained from the experience of 1907-08. The exceptional severity of the adverse conditions of that period is set forth in Lord Morley's Despatch No 82 of 2nd July 1909 and its enclosure (page 201), which summarises the figures relating to the foreign trade of India from 1st November to 31st October in each year from 1896-97 to 1907-08, and shows that, although the period included two severe famines, the only year in which there was an adverse balance of trade was 1907-08. The statistics of this period thus illustrate the effects of as severe a period of adversity as it is reasonable to anticipate, and the best method of deciding the amount up to which the sterling part of the Gold Standard Reserve should be allowed to accumulate before a portion of future receipts from profits of coinage is used for other purposes, such as capital expenditure on railways and irrigation works, seems to be—

- (1) To calculate the exceptional demands made in 1907-08 on the resources available for the support of exchange
- (2) To base the decision as to the further accumulation of the Reserve on the view that it, together with the other resources available for the support of exchange, should exceed by a liberal margin the amount of the exceptional demands calculated under (1)

In making a calculation of the kind suggested in (1) it will be convenient to deal separately with transactions in England and India respectively.

14 As regards transactions in England I submit in Statement E (page 104) particulars of all cash receipts and disbursements of the India Office for each month from 1st September 1907 (which is certainly the earliest date at which the adverse period can be said to have begun, since in the previous month Council Bills had been sold for a large amount and the stock of gold held by the Government of India had been increasing) to the 31st December 1908, which may be taken as the end of the adverse period, since from that time Council Bills were again sold steadily, and no further measures were taken for the support of exchange.

15 The significance of the rather copious particulars in Statement E is brought out in the following summary —

INDIA OFFICE CASH TRANSACTIONS, 1st September 1907 to 31st December 1908  
(Summary of Statement E, page 104)

GOLD STANDARD RESERVE

		£			£
Opening Cash balance (apart from securities)	-	38,406	Invested	-	2,823,563
Cash Receipts	-		Payments to meet bills drawn by the Government of India on Secretary of State, and sold to bankers, merchants, &c, in India	-	8,058,000
Dividends and remittances from India	-	954,855	Temporarily transferred to general India Office balance for meeting Secretary of State's requirements (See "Other Transactions" below)	-	933,749
Securities sold or repaid on maturity	-	10,822,051	Closing Cash balance [The market value of the sterling securities at this date was 5,104,078½]	-	—
		11,776,906			
Total	-	11,815,312	Total	-	11,815,312

OTHER TRANSACTIONS

		£			£
Opening balance	-	5,146,111	Railways Payments on Capital Account, including discharge of railway loans	-	12,396,194
Railways Proceeds of railway loans	-	13,595,597	Purchase of silver	-	1,523,501
General purposes	-		General Purposes Payments (less 933,749½ met by temporary transfer from Gold Standard Reserve, as shown above)	-	23,656,241
Receipts from sale of Council Bills and Transfers and Miscellaneous	-	15,026,532	Closing balance	-	5,222,304
Gold withdrawn from Paper Currency Reserve	-	4,530,000			
Proceeds of India Bills issued for general purposes	-	4,500,000			
		24,056,532			
Total	-	42,798,240	Total	-	42,798,240

16 The upper part of the summary shows that the Gold Standard Reserve was drawn upon to the extent of 8,050,000*l* to meet bills sold in India towards enabling the unfavourable trade balance to be liquidated, and 933,749*l* towards meeting the Secretary of State's requirements or 8,991,749*l* in all

17. Regarding the exact amount of the exceptional demands included in the transactions shown in the lower part of the summary ("Other Transactions,") there is room for difference of opinion, but not to any very important extent. The correct figure appears to me to be 8,629,709*l*, being the excess of the expenditure of 23,656,241*l* for General Purposes over the receipts of 15,026,532*l* received for such purposes from normal sources, and it will be noticed that the abnormal receipts from which this excess was met, namely 4,530,000*l* withdrawn in gold from the Paper Currency Reserve, and 4,500,000*l* received through the issue of India Bills, corresponds fairly closely to this amount, the difference being due to the fact that the amounts provided from these two sources proved to be slightly in excess of requirements as indicated by the comparatively large amount of the closing balance. I exclude from my calculations of "exceptional demands" the following sums shown in the summary —

A 1,199,403*l*, representing the excess of the proceeds of railway loans over payments for railways on capital account. The reason for this exclusion is that, as explained in my Memorandum on "The General Balances of the Government of India on the Sale of Council Bills and Transfers" the raising in England of railway loans in excess of the capital expenditure in England on railways in years in which there are no large balances to draw

upon, is necessitated by the fact that the loans raised in India and other resources in India specially allocated for capital expenditure, ordinarily fall short of the capital outlay in India.

B 1,523,501*l* paid for silver bought before the prospect of an adverse trade balance showed itself. If I give evidence as to the way in which the purchase of silver is regulated, I shall be able to show that the purchases which involved this payment were in excess of requirements, would not have been made if the system now in force of regulating purchases in accordance with the India Office Memorandum (page 188) enclosed in Lord Morley's Despatch No 25 of 18th February 1910 had been in force in 1907, and would not be made on any future occasion on which the conditions existing in 1907 were reproduced.

18 I therefore calculate that the exceptional demands that had to be met in the sixteen months from September 1907 to December 1908 in consequence of the unfavourable state of exchange were as follows —

	£
From Gold Standard Reserve (to meet Bills and to strengthen Treasury Balances) - -	8,991,749
Excess of payments for general purposes over normal receipts available for such purposes (as shown under "Other Transactions") - -	8,629,709
Total -	17,621,458

19 Assuming that the strain experienced in the period mentioned is as great, or nearly as great, as it is reasonable to provide for, it would appear that even if the London Branch of the Gold Standard Reserve were the only resource at the disposal of the Secretary of State in England for meeting a fall in exchange, the present regulations which provide that it shall accumulate up to 25,000,000*l*, and which contemplate that thereafter a portion of the profits of future coinage may be diverted to other purposes (leaving a portion to be added to the Reserve, together with the accruing interest, to provide for the growth of possible requirements), do not err on the side of rashness. As a matter of fact there appears to be no reason, unless a change of policy is made with regard to the Paper Currency Reserve, for not assuming that there will also be available at the commencement of any future period of adverse exchange, several millions in gold in the Paper Currency Reserve in England ready to be used, like the 4,530,000*l* mentioned in the summary on the preceding page as having been so used in 1907-08, to supplement the Gold Standard Reserve.

20 Up to this point I have dealt only with the extent to which the exceptional demands for the support of exchange between September 1907 and December 1908 arose and were met in England. It might be held that the diminution during this period of the stock of gold held by the Government of India in India, as shown in Statement D (page 103) represents exceptional demands for the same purpose that arose and were met in India. For the reasons given in paragraph 4 (b) above, I think that this view is substantially incorrect. It seems clear from the figures referred to in that paragraph and given in detail in the penultimate column of Statement D that in 1907-08 the gold held in India was of little, if any, immediate use for the support of exchange and that practically the whole of the exceptional demands for the support of exchange were met in England and were represented by the figure of 17,621,458*l* given above. Any difference of opinion on this point does not appear to affect materially the argument regarding the amount required for the Gold Standard Reserve in England. There is no reason to doubt that at the commencement of any future exchange crisis, a certain stock of gold will be held by the Government of India in the Paper Currency Reserve in India, as was the case in 1907-8, and will serve to the same extent (if any) as the gold then held to meet demands arising in India for the support of exchange. If this is so, the calculation in support of the argument that 25,000,000*l* is enough to meet demands for the same purpose arising in England is unaffected.

21 Even if the Commission does not accept the particular calculation above as to the amount to which the London Branch of the Gold Standard Reserve should be allowed to accumulate before profits on further coinage are used for capital expenditure, they may perhaps accept the view that some limit should be fixed, and that when that limit has been reached a portion of future profits should be used for the purpose mentioned. Failing this, there will be a danger that money urgently required for the development of India and for its security against famine, will be uneconomically employed by being added unnecessarily to the Gold Standard Reserve.

## VI.

### *Indian Branch of the Reserve*

22 Statement A (page 97) shows that since 1906 a portion of the Gold Standard Reserve (now known as the Indian Branch of the Reserve) has been held in India in silver. The recognised normal amount to be so held is six crores of rupees (4,000,000), though for special reasons this figure has often been departed from. For the first few months the amount so held was in partially coined rupees. Lord Morley's Despatch of 16th November 1906, No 135, page 146, sanctioned a proposal of the Government of India that it should be held in rupees. Under an arrangement proposed in paragraph 8 of the Letter from the Government of India, No. 48, of 29th February 1912, page 195, and accepted by the Secretary of State in his Despatch, No 76 (Financial), of 28th June 1912, page 201, a portion of the Indian branch of the Reserve will occasionally be held for a few months in the year in gold in India. The reason for the establishment of the Indian Branch was that in 1906 the Government of India (*see their Letter of 26th April 1906, Appendix V, page 137,*) wished to increase their holding of rupees and of silver ready for coinage, and thought that the cost could be met advantageously, and without prejudice to the future maintenance of exchange, from money that would otherwise have gone to the sterling branch of the Gold Standard Reserve. Their proposal to this effect was approved by the Secretary of State. The advantage of what was done in 1906 arose from the fact that, if the additional silver then required had not been bought from the resources of the Gold Standard Reserve, only a small part of its cost could have been met from the balances of the Secretary of State and the Government of India, and it would therefore have been necessary to pay a considerable portion from the gold held in the Paper Currency Reserve. This was thought undesirable at the time, because the stock of gold in the Paper Currency Reserve was comparatively low, and it seemed more advantageous to avoid reducing it than to secure a corresponding increase in the securities of the Gold Standard Reserve. The force of this consideration has now passed away, owing to the great increase in the circulation of currency notes and in the amount of gold that can be, and is, held in the Paper Currency Reserve, and, if there were no other consideration affecting the matter, there would be much to be said for the view that the right course would now be to transfer to the Paper Currency Reserve all the rupees held in the Gold Standard Reserve against a corresponding transfer of sovereigns in the other direction.

23 There are, however, two other points to be borne in mind —

(A) In a Letter of the 29th February 1912, page 195, Appendix V, the Government of India make the following remarks — "Our Gold Standard Reserve silver is a bulwark against hasty coming. It supplements our general stock of rupees when the latter is running low, it gives us time to buy silver at discretion, or if the stringency is temporary, it enables us to carry through without fresh coming until the return of rupees from circulation recommences." I think that the effect of these remarks is mainly that, if the standard of the amount of rupees to be held in the Paper Currency Reserve is rather too low, the presence of rupees in the Indian branch of the Gold Standard Reserve supplements the deficiency. But it would seem that the deficiency could be removed with greater directness and simplicity and less liability to misunderstanding by

raising the standard of rupees to be held in the Paper Currency Reserve. On this view, this particular justification for the existence of the Indian branch of the Gold Standard Reserve would not have very great force.

(B) There is a wholly different justification, which seems to have great force. I fear that its explanation must be a little intricate. From time to time there is a trade demand for Council Bills and Transfers considerably in excess of what the Government of India can meet from their Treasury balances. The usual method of dealing with such a demand is as follows—

- (1) The Secretary of State responds to it by selling Bills and Transfers, as indeed he is bound to do, under the Notification issued by Mr Brodrick in 1904, when the demand is for Bills at 1s 4½d the rupee.
- (2) Except in circumstances such as are described immediately below, he transfers the proceeds of his sales in sovereigns to the portion of the Paper Currency Reserve held in England (or, in money market language, "earmarks" sovereigns), and thus enables the Government of India to place themselves in funds for meeting the Bills and Transfers either by the issue of additional notes against the "earmarked" gold or by the withdrawal of a corresponding amount in rupees from the portion of the Paper Currency Reserve held in India.

24. Indian interests would be liable to be injured if this procedure were followed, either at a time when the Secretary of State has in hand an operation (such as the issue of a loan or the renewal of a large block of debenture bonds) of which the success might be prejudiced by sudden stringency in the London money market or at a time when stringency already exists and an increase of it is likely to react on trade generally, including Indian trade. And this liability to injury would not be avoided, as might at first seem possible, if the Secretary of State had recourse to the simple expedient of refusing to sell Bills and Transfers, since such action would probably lead to large shipments of gold by the Exchange Banks from England to India, with an effect on the money market similar to that produced by "earmarking."

25. In circumstances such as these, Bills and Transfers sold by the Secretary of State are met by the Government of India from the rupees<sup>\*</sup> in the Indian Branch of the Gold Standard Reserve, the sale proceeds are temporarily added by the Secretary of State to the London Branch, and disturbance of the London money market is avoided. This seems to be an extremely useful purpose served by the Indian Branch, so useful, indeed, as to justify the continued maintenance of the Indian Branch, unless an alternative method of securing the same object is introduced.

26. The one alternative method that has been suggested is to amend the Indian Paper Currency Act so as to allow the Secretary of State to make temporary additions to the London portion of the Paper Currency Reserve by other means than the "earmarking" of gold, *e.g.*, by adding sterling securities or by allocating to the Reserve deposits at the Bank of England or loans granted under suitable conditions to first-class borrowers against British or Indian Government securities. This scheme has some obvious advantages; its disadvantages are that—

The purchase at short notice of large quantities of securities suitable to be held for a few weeks or months and then sold would seldom be easy and might at times be impracticable.

The temporary holding, as part of the Reserve, of Bank of England deposits or loans on security, while open to no substantial objection—since scarcely any safer form of reserve can be found—might be regarded on account of its novelty with suspicion as a form of "juggling with the Reserve." This objection would certainly be diminished, perhaps removed, if the scheme were recommended by so authoritative a body as the present Royal Commission.

\* Hitherto rupees have been taken from the Indian Branch as a loan, but the improved procedure described in the text has now been agreed to by the Secretary of State and the Government of India (See Lord Crewe's Despatch, No 13 (Financial), dated 24th January 1913, page 206.)

27 As it is possible that the Commission may recommend, and His Majesty's Government may approve, the abolition of the Indian Branch of the Gold Standard Reserve, it may be well to say something of the steps by which this measure could be carried out

28 The first step would naturally be to transfer simultaneously (1) all the rupees now in the Gold Standard Reserve to the Paper Currency Reserve, and (2) an equivalent amount in sovereigns from the Paper Currency Reserve to the Gold Standard Reserve. It would be necessary to decide at the same time what was to be done with the sovereigns. One alternative would be to hold them in India, to be shipped to the Secretary of State on the next occasion of a serious fall in exchange. Another alternative would be to hold them in India to be issued to the public in exchange for rupees on any such occasion, under such regulations as might seem best calculated to ensure that, when so issued, they would be used for export in liquidation of an adverse trade balance. If the first of these alternatives were adopted, the Indian branch of the Reserve would serve the same purpose as the London branch, viz, to support exchange during unfavourable trade conditions. This would also be the case under the second alternative, provided that the regulations suggested were really effective, a point of which the importance is sufficiently illustrated by what is said on page 90. A third alternative would be to send the sovereigns to England as soon as they were transferred from the Paper Currency Reserve, and either to hold them at the Bank of England, apart from the Bank's general reserve, or to buy with them short dated securities.

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## Statement A.

AMOUNT, COMPOSITION, AND LOCATION OF THE GOLD STANDARD RESERVE 1901 TO 1913

Date	England				India				Total England and India
	Securities at Market value	Cash at Short notice	Gold deposited at the Bank of England	Total	Loans and Book credits	Gold	Silver	Total	
	1	2	3	4	5	6	7	8	9
<b>1901</b>	£	£	£	£	£	£	£	£	£
31st March	—	—	—	—	1,830,000	1,200,000	—	3,030,000	3,030,000
30th June	499,648	—	—	499,648	1,842,589	1,097,776	—	2,940,365	3,440,013
30th September	993,279	247	—	993,032	1,841,388	597,710	—	2,439,098	3,432,125
31st December	1,008,424	—	—	1,008,424	—	2,439,093	—	2,439,093	3,447,517
<b>1902</b>									
31st March	3,456,426	—	—	3,456,426	—	—	—	—	3,456,426
30th June	3,546,647	—	—	3,546,647	38,485	—	—	38,485	3,585,132
30th September	3,455,913	—	—	3,455,913	286	175,485	—	175,771	3,631,684
31st December	3,467,372	—	—	3,467,373	2,005	260,771	—	262,776	3,730,148
<b>1903</b>									
31st March	3,652,371	—	—	3,652,371	1,027	—	—	1,027	3,653,398
30th June	3,770,036	—	—	3,770,036	3,417	261,027	—	264,444	4,034,480
30th September	3,860,878	—	—	3,860,878	1,954	3,417	—	5,371	3,866,249
31st December	3,900,794	—	—	3,900,794	295,698	323,417	—	619,115	4,519,909
<b>1904</b>									
31st March	6,041,958	—	—	6,041,958	167,158	417	—	167,575	6,209,533
30th June	6,367,518	—	—	6,367,518	25,825	440,417	—	466,242	6,833,760
30th September	6,871,653	—	—	6,871,653	13,153	416	—	13,569	6,885,222
31st December	6,951,743	499,604	—	7,451,347	76,740	200,416	—	277,156	7,728,503
<b>1905</b>									
31st March	8,387,976	—	—	8,387,976	152,000	—	—	152,000	8,539,976
30th June	8,542,313	—	—	8,542,313	42,184	70,000	—	112,184	8,654,447
30th September	8,870,106	—	—	8,870,106	34,284	70,000	—	104,284	8,974,340
31st December	9,898,999	—	—	9,898,999	97,434	240,000	—	337,434	10,236,433
<b>1906</b>									
31st March	12,122,701	—	—	12,122,701	286,879	—	—	286,879	12,409,580
30th June	11,930,210	—	—	11,930,210	218,655	—	1,182,300	1,401,455	13,331,665
30th September	11,897,180	—	—	11,897,180	247,956	—	2,301,867	2,549,823	14,447,003
31st December	11,919,061	—	—	11,919,061	3,530,723	—	69,540	3,590,263	15,509,324
<b>1907</b>									
31st March	11,980,314	—	—	11,980,314	301,905	21,725	4,000,000	4,323,030	16,283,344
30th June	12,826,396	13,964	—	12,840,360	139,717	90,300	4,000,000	4,229,717	17,070,077
30th September	12,901,675	—	—	12,901,675	35,691	79,970	4,000,000	4,110,661	17,012,636
31st December	13,203,469	13,810	—	13,222,299	60,044	263,348	4,000,000	4,323,393	17,545,692
<b>1908</b>									
31st March	12,978,839	1,131,233	—	14,110,062	310	—	4,000,000	4,000,310	18,110,372
30th June	10,362,929	321,407	—	10,684,336	310	—	8,178,000	8,178,310	18,219,832
30th September	6,029,204	76,777	—	6,105,981	310	—	12,053,000	12,053,310	18,164,291
31st December	5,104,078	—	—	5,104,078	1,000,310	—	11,991,749	12,992,059	18,096,137
<b>1909</b>									
31st March	7,133,953	469,818	—	7,603,771	344	—	10,586,734	10,587,078	18,190,849
30th June	9,639,589	711,272	—	10,410,861	344	—	7,786,734	7,787,078	18,197,939
30th September	9,757,979	698,669	—	10,456,648	344	—	7,786,734	7,787,078	18,213,723
31st December	10,450,141	1,017,192	—	11,467,333	3,000,344	—	4,786,734	6,787,078	18,254,411
<b>1910</b>									
31st March	12,695,713	3,010,528	—	15,706,241	—	—	2,534,302	2,534,302	18,240,543
30th June	14,643,471	1,262,467	—	15,905,938	—	—	2,534,302	2,534,302	18,440,240
30th September	14,423,104	1,423,891	—	15,846,995	—	—	2,534,302	2,534,302	18,381,097
31st December	14,513,878	1,437,425	—	15,951,303	—	—	2,534,302	2,534,302	18,485,605
<b>1911</b>									
31st March	15,497,834	1,477,358	—	16,975,192	—	—	1,934,302	1,934,302	18,619,494
30th June	15,368,740	1,442,658	—	16,811,398	—	—	1,934,302	1,934,302	18,745,700
30th September	16,606,290	1,222,880	—	16,829,170	—	—	1,934,302	1,934,302	18,763,472
31st December	16,658,904	973,434	—	16,932,338	—	—	1,934,302	1,934,302	18,866,640
<b>1912</b>									
31st March	16,087,722	1,073,710	—	17,161,432	—	—	1,934,302	1,934,302	19,095,734
30th June	16,111,795	1,004,673	—	17,116,468	—	—	1,934,302	1,934,302	19,050,769
30th September	13,889,833	3,234,107	—	17,123,940	—	—	2,100,000	2,100,000	19,223,940
31st December	15,965,149	1,013,690	250,000	17,228,839	—	—	3,745,667	3,745,667	20,974,506
<b>1913</b>									
31st March	15,945,669	1,005,664	1,620,000	18,571,333	—	—	4,000,000	4,000,000	22,571,333

\* The Gazette of India, 9th December 1905, gives the amount of gold held in India as 370,000l. and the amount of Treasury Bills held in England as 1,200,000l. A transfer of 300,000l. to Gold Standard Reserve in England was, however, actually made on 28th September, and the sum was invested in Treasury Bills, raising the amount of the latter to 1,500,000l.

† Including 2,533,333l. temporary loan to the Government of India at 3½ per cent. interest.

‡ Including 1,000,000l. temporary loan to the Government of India at 3½ per cent. interest.

§ Including 2,000,000l. temporary loan to the Government of India.

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## Statement B.

VALUATION OF THE SECURITIES HELD ON BEHALF OF THE GOLD STANDARD RESERVE ON 31ST MARCH 1913, INTEREST RECEIVED, LOSS ON SALE OF SECURITIES, DEPRECIATION, AND NET PROFIT TO SAME DATE

Security	Nominal Value	Cost Price	Minimum Market Price on 31st March 1913	Market Value
<b>Securities not due for early redemption —</b>	£	£		£
2½ per cent Consolidated Stock - - - - -	4,665,770	4,207,463	74½	3,475,998
Local Loans 3 per cent Stock - - - - -	200,000	195,106	85½	170,500
Guaranteed 2½ per cent Stock - - - - -	438,720	407,187	74½	326,847
Transvaal Government 3 per cent Guaranteed Stock, 1923-53 - - - - -	1,092,023	1,076,524	90	982,820
<b>Total - - - - -</b>	<b>6,396,513</b>	<b>5,886,280</b>		<b>4,956,165</b>
<b>Securities due for early redemption —</b>				
British Treasury Bills				
Maturing 9th August 1913 - - - - -	400,000	392,608	98½	394,000
Maturing 16th August 1913 - - - - -	1,000,000	980,890	98½	983,750
Maturing 21st August 1913 - - - - -	1,000,000	980,784	98½	983,125
Exchequer 2½ per cent Bonds, redeemable 18th April 1913-15 - - - - -	50,000	50,032	*99	49,675
Exchequer 3 per cent Bonds, redeemable 5th April 1915 - - - - -	2,885,600	2,874,984	99½	2,863,958
Exchequer 3 per cent Bonds, redeemable 14th October 1916 - - - - -	4,000,000	4,000,000	99½	3,965,000
Canada 3½ per cent Bonds, redeemable 1st July 1914-19 - - - - -	161,000	164,437	97	156,170
Corporation of London 3½ per cent Debentures, redeemable 1st June 1914 - - - - -	50,000	50,001	†99½	49,977
Corporation of London 3½ per cent Debentures, redeemable 1st July 1915 - - - - -	45,000	45,451	†100	45,384
Corporation of London 3½ per cent Debentures, redeemable 10th April 1913 - - - - -	50,000	50,002	†99 10s 2d	50,745
New Zealand 3½ per cent Debentures, redeemable 31st December 1914 - - - - -	101,400	100,007	98	99,372
New Zealand 3½ per cent Debentures, redeemable 1st April 1915 - - - - -	45,000	45,170	98	44,100
New Zealand 3½ per cent Debentures, redeemable 1st July 1914 - - - - -	100,000	98,205	98	98,000
Queensland 4 per cent Bonds, redeemable 1st July 1915 - - - - -	95,000	97,067	99	94,050
Queensland 4 per cent Stock, redeemable 1st July 1915 - - - - -	55,000	56,208	99	54,450
New South Wales 4 per cent Bonds redeemable 1st March 1915 - - - - -	4,000	4,105	99	3,960
New South Wales 3½ per cent Stock, redeemable 1st September 1918 - - - - -	113,000	112,442	95	107,350
New South Wales Bills, maturing 16th May 1913 - - - - -	250,000	241,512	99½	243,438
Southern Nigeria 4 per cent Bonds, redeemable 15th September 1916 - - - - -	100,000	98,881	98	98,000
Union of South Africa Bills, maturing 1st April 1913 - - - - -	600,000	577,500	100	600,000
<b>Total - - - - -</b>	<b>11,105,000</b>	<b>11,020,281</b>		<b>10,989,504</b>
<b>Grand Total - - - - -</b>	<b>17,501,513</b>	<b>16,906,561</b>		<b>15,945,669</b>
Cash placed by the Secretary of State at short notice - - - - -				1,005,664
Gold deposited at the Bank of England - - - - -				1,620,000
<b>Total - - - - -</b>				<b>18,571,333</b>
			£	£
The dividends on investments, discount on Treasury Bills, and interest on loans at short notice received to 31st March 1913 amounted to - - - - -				3,421,894
The net loss on securities sold and redeemed to 31st March 1913 was - - - - -		160,377		
The depreciation on securities on 31st March 1913, as shown above, was - - - - -		960,892		
<b>Net profit - - - - -</b>				<b>1,121,269</b>
				<b>£2,300,625</b>

\* 17,500/ drawn for repayment on 18th April valued at par

† Plus accrued interest



## Statement C.

## SECURITIES BOUGHT, SOLD, AND DISCHARGED AT MATURITY, 1901-02 TO 1912-13

Description of Security	Securities purchased			Securities sold and discharged at Maturity			
	Nominal Amount	Average Price	Cost Price	Sold			Discharged at Maturity at Par
				Nominal Amount	Average Price	Amount realised	
	£	£ s d	£	£	£	£	£
<b>1901-02.</b>							
2½ p.c. Consolidated Stock	3,667,295	94 3 10	3,454,245	—	—	—	—
<b>1902-03.</b>							
2½ p.c. Consolidated Stock	385,267	92 8 6	356,085	—	—	—	—
<b>1903-04.</b>							
2½ p.c. Consolidated Stock	1,991,196	86 16 0	1,728,399	—	—	—	—
National War Loan 2½ p.c. Stock	322,896	97 9 10	314,790	—	—	—	—
Local Loans, 3 p.c. Stock	330,224	97 16 4	323,000	—	—	—	—
Transvaal Government 3 p.c. Guaranteed Stock 1923-53	209,594	95 8 5	200,000	—	—	—	—
	2,858,910	—	2,568,189	—	—	—	—
<b>1904-05.</b>							
National War Loan 2½ p.c. Stock	205,138	97 16 0	200,629	—	—	—	—
Local Loans 3 p.c. Stock	104,288	95 16 3	99,921	—	—	—	—
Transvaal Government 3 p.c. Guaranteed Stock 1923-53	514,142	97 3 3	499,562	—	—	—	—
British Treasury Bills (6 months)	1,200,000	98 16 8	1,185,984	—	—	—	—
	2,023,568	—	1,986,096	—	—	—	—
<b>1905-06.</b>							
2½ p.c. Consolidated Stock	1,597,452	89 15 0	1,433,677	—	—	—	—
National War Loan 2½ p.c. Stock	724,333	98 17 11	716,327	—	—	—	—
Local Loans 3 p.c. Stock	65,489	99 0 3	64,843	—	—	—	—
Transvaal Government 3 p.c. Guaranteed Stock 1923-53	770,588	100 7 8	773,554	—	—	—	—
2½ p.c. Guaranteed Stock	538,730	92 16 3	500,000	—	—	—	—
British Treasury Bills (6 months)	3,000,000	98 14 10	2,962,301	—	—	—	2,700,000
	6,696,581	—	6,450,602	—	—	—	2,700,000
<b>1906-07.</b>							
2½ p.c. Consolidated Stock	261,922	88 10 9	231,906	—	—	—	—
National War Loan 2½ p.c. Stock	124,755	97 9 0	121,575	—	—	—	—
British Treasury Bills (6 months)	3,000,000	98 5 2	2,947,720	—	—	—	3,000,000
	3,386,677	—	3,301,201	—	—	—	3,000,000

Description of Security	Securities purchased			Securities sold and discharged at Maturity			
	Nominal Value	Average Price	Cost Price	Sold			Discharged at Maturity at Par
				Nominal Amount	Average Price	Amount realised	
	£	£ s d	£	£	£ s d	£	£
<b>1907-08.</b>							
2½ p c Consolidated Stock	492,248	85 6 5	420,000	1,000,000	87 16 3	878,125	—
National War Loan 2½ p c Stock	87,054	97 10 10	84,914	—	—	—	—
3 p c Exchequer Bonds (1909)	1,000,000	99 12 6	996,250	—	—	—	—
British Treasury Bills — Six months	3,000,000	98 6 10	2,960,239	—	—	—	3,000,000
119 days	75,000	99 5 4	74,450	—	—	—	—
	4,654,302	—	4,525,853	1,000,000	—	878,125	3,000,000
<b>1908-09.</b>							
2½ p c Consolidated Stock	39,873	83 11 3	33,319	3,269,483	86 6 6	2,822,363	—
National War Loan 2½ p c Stock	486,568	100 2 6	487,176	1,464,175	99 17 3	1,462,189	—
Canada Treasury Bills — 341 days	750,000	97 8 7	730,731	—	—	—	—
334 days	250,000	97 9 8	243,709	—	—	—	—
New South Wales Bills (6 months)	500,000	98 15 2	493,501	—	—	—	—
British Treasury Bills	—	—	—	1,500,000	99 14 3	1,446,712	75,000
3 p c Exchequer Bonds (1909)	—	—	—	1,000,000	100 1 10	1,000,937	—
Local Loans 3 p c stock	—	—	—	300,000	98 19 7	296,937	—
Transvaal Government 3 p c Guaranteed Stock 1923-53	—	—	—	402,302	98 14 7	397,187	—
2½ p c Guaranteed Stock	—	—	—	100,000	89 6 3	89,312	—
	2,026,441	—	1,968,738	8,035,980	—	7,564,637	75,000
<b>1909-10.</b>							
2½ p c Consolidated Stock	500,000	85 8 9	427,188	—	—	—	—
National War Loan 2½ p c Stock	115,000	100 16 11	115,971	—	—	—	—
„ War Loan 2½ p c Bonds	266,000	100 11 1	267,738	—	—	—	—
3 p c Exchequer Bonds (1912)	600,000	100 9 0	602,707	—	—	—	—
British Treasury Bills — Six months	5,344,000	98 12 11	5,271,566	—	—	—	2,143,000
Three months	750,000	98 19 6	742,328	—	—	—	—
187 days	400,000	99 8 4	397,255	—	—	—	—
Canada Treasury Bills — One year and 84 days	500,000	96 12 4	483,088	—	—	—	1,000,000
155 days	50,000	98 19 0	49,475	—	—	—	—
Five months	530,000	98 19 8	524,621	—	—	—	—
Natal Treasury Bills (12 months)	500,000	96 17 6	484,375	—	—	—	—
New Zealand Bills (178 days)	30,000	99 5 4	29,780	—	—	—	30,000
3 p c Exchequer Bonds (1915) — Deposit on allotment	—	99 10 0 (see next year)	30,400	—	—	—	—
New South Wales Treasury Bills	—	—	—	—	—	—	500,000
	9,585,000	—	9,426,550	—	—	—	3,673,000

Description of Security	Securities purchased			Securities sold and discharged at Maturity			
	Nominal Amount	Average Price	Cost Price	Sold			Discharged at Maturity at Par
				Nominal Amount	Average Price	Amount realised.	
£	£ s d	£	£	£	£	£	
<b>1910-11.</b>							
3 p c Exchequer Bonds (1915) Balance of purchase money	1,528,000	99 10 0	1,484,925	—	—	—	—
3 p c Exchequer Bonds (1915)	2,227,600	99 13 3	2,220,117	—	—	—	—
British Treasury Bills (6 months)	8,400,000	98 14 1	8,291,214	—	—	—	8,251,000
Canada 3½ p c Bonds (1912)	378,000	101 10 6	383,758	—	—	—	—
„ 3½ p c Bonds (1914-19)	111,000	102 17 5	114,188	—	—	—	—
„ 4 p c Bonds (1912)	81,000	102 13 0	83,146	—	—	—	—
„ Treasury Bills	—	—	—	—	—	—	1,080,000
Cape of Good Hope 4 p c Bonds (1911)	107,500	102 14 3	110,414	—	—	—	—
New South Wales Bonds (1915)	4,000	102 12 6	4,105	—	—	—	—
„ 4 p c Stock (1918)	113,000	99 10 1	112,442	—	—	—	—
New Zealand 3½ p c Debentures (1915)	45,000	100 7 7	45,170	—	—	—	—
„ 3½ p c Debentures (1914)	101,400	98 12 6	100,007	—	—	—	—
„ 3½ p c Debentures (1912)	45,000	100 12 6	45,282	—	—	—	—
Queensland 4 p c Bonds (1915)	17,000	101 5 2	17,214	—	—	—	—
„ 4 p c Stock (1915)	10,000	101 7 7	10,138	—	—	—	—
Corporation of London 3½ p c Debs (1913)	50,000	100 0 1	50,002	—	—	—	—
„ „ 3½ p c Debs (1914)	50,000	100 0 0	50,001	—	—	—	—
„ „ 3½ p c Debs (1915)	45,000	101 0 0	45,451	—	—	—	—
Natal Treasury Bills	—	—	—	—	—	—	500,000
National War Loan Stock and Bonds	—	—	—	—	—	—	887,568
	13,308,500	—	13,167,572	—	—	—	10,698,568
<b>1911-12</b>							
3 p c Exchequer Bonds (1912)	250,000	100 0 8	250,079	—	—	—	—
„ „ (1915)	135,000	100 11 11	135,808	—	—	—	—
British Treasury Bills (6 months)	9,000,000	98 10 4	8,866,412	—	—	—	9,000,000
Canada 3½ p c Bonds (1914-19)	50,000	100 10 0	50,251	—	—	—	—
Union of S Africa Bills (9 months)	500,000	97 11 0	487,757	—	—	—	—
Southern Nigeria 4 p c Bonds (1916)	100,000	98 17 7	98,881	—	—	—	—
Cape of Good Hope Bonds	—	—	—	—	—	—	107,500
	10,085,000	—	9,889,183	—	—	—	9,107,500

Description of Security	Securities Purchased			Securities sold and discharged at Maturity			
	Nominal Amount	Average Price	Cost Price	Sold			Discharged at Maturity at Par
				Nominal amount	Average Price	Amount realised	
	£	£ s d	£	£	£	£	
<b>1912-13</b>							
2½ p c Exchequer Bonds (1913-15)	50,000	100 1 3	50,032	—	—	—	—
3 p c Exchequer Bonds (1916)	4,000,000	100 0 0	4,000,000	—	—	—	—
3 p c Exchequer Bonds (1915)	—	—	—	1,000,000	100	1,000,000	—
British Treasury Bills — Six months	3,800,000	98 4 4	3,732,223	—	—	—	6,900,000
165 days	1,000,000	98 13 5	986,726	—	—	—	—
Queensland 4 p c Bonds (1915)	78,000	102 7 6	79,854	—	—	—	—
"    "    Stock (1915)	45,000	102 7 7	46,070	—	—	—	—
New Zealand 3½ p c Debs (1914)	100,000	98 4 1	98,205	—	—	—	—
Union of S Africa Bills (12 months)	600,000	96 5 0	577,500	—	—	—	500,000
New South Wales Bills — 358 days	100,000	96 12 0	96,589	—	—	—	—
357 days	150,000	96 12 2	144,913	—	—	—	—
Canada 3½ p c Bonds	—	—	—	—	—	—	378,000
"    4 p c Bonds	—	—	—	—	—	—	81,000
New Zealand 3½ p c Debs	—	—	—	—	—	—	45,000
3 p c Exchequer Bonds (1912)	—	—	—	—	—	—	850,000
	9,923,000	—	9,812,122	1,000,000	—	1,000,000	8,754,000

Statement D.

British Gold Coin held in Government Treasuries and Reserves in India, and  
 amount September 1907 to December 1908

and sold by Government of India during the Month		Diminution of Government Stock of British Gold Coin in India during Month	Exports of Sovereigns and other British Gold coins from India on private account during Month.	Remarks
Offered	Sold			
2½ p c Ea				
3 p c Exc				
3 p c Excl				
British Tr	£	£	£	£
Six m	—	—	152,000	14
165 da	—	—	254,000	9,109
Queensland	—	—	532,000	3
"	—	—	338,000	2,501
New Zealand				
Union of S			247,000	7
New South Y			58,000*	3
358 days	500,000	70,000	226,000	6
357 days				
Canada 3½ p c	500,000	449,000	461,000	10,088
" 4 p c	500,000	340,000		
" 4 p c	500,000	441,000		
New Zealand	500,000	329,000		
3 p c Excheq	500,000	205,000		
	500,000	81,000	654,000	2,002
	500,000	145,000		
	820,000	793,000		
	500,000	500,000†		
	1,000,000	755,000	334,000	2,995
	1,000,000	70,000		
	500,000	Nil		
	500,000	50,000		
	500,000	470,000	16,000	115,005
	500,000	304,000		
	500,000	500,000‡		
	1,000,000	968,000		
	1,000,000	860,000		† Tenders received for 741,000
	1,000,000	418,000	354,000	81,306
	500,000	310,000		
	500,000	Nil		
	500,000	Nil		
	500,000	Nil	502,000	137
	500,000	Nil		
	—	—	325,000	1,243
	—	—	62,000	25,500
	—	—	5,000	21
	15,320,000	8,058,000	4,394,000*	249,942

Offer to sell bills on I  
 discontinued 11th Sep  
 1908, F 5644 2  
 light British Gold C  
 25,000 gold bullion  
 by Government of  
 Secretary of State  
 || Increase

\* Including the 215/  
 coin mentioned ab

Exchange Rates, Sales by the Government of India of Bills on London, Diminution of  
Exports of British Gold Coin from India on Private Act

Month	Highest and Lowest rate of Exchange on India quoted in London (from "Times").				Bills on London offered at each day	
	Calcutta.		Bombay		Date	
	Highest	Lowest	Highest	Lowest		
<b>1907.</b>						
September	1 4 <sup>1</sup> / <sub>8</sub>	1 3 <sup>3</sup> / <sub>4</sub>	1 4 <sup>1</sup> / <sub>8</sub>	1 3 <sup>3</sup> / <sub>4</sub>	—	
October	1 4 <sup>1</sup> / <sub>8</sub>	1 3 <sup>3</sup> / <sub>4</sub>	1 4 <sup>1</sup> / <sub>8</sub>	1 3 <sup>3</sup> / <sub>4</sub>	—	
November	1 4	1 3 <sup>3</sup> / <sub>4</sub>	1 3 <sup>3</sup> / <sub>4</sub>	1 3 <sup>3</sup> / <sub>4</sub>	—	
December	1 3 <sup>1</sup> / <sub>8</sub>	1 3 <sup>3</sup> / <sub>4</sub>	1 3 <sup>1</sup> / <sub>8</sub>	1 3 <sup>3</sup> / <sub>4</sub>	—	
<b>1908.</b>						
January	1 3 <sup>1</sup> / <sub>8</sub>	1 3 <sup>3</sup> / <sub>4</sub>	1 3 <sup>1</sup> / <sub>8</sub>	1 3 <sup>3</sup> / <sub>4</sub>	—	
February	1 3 <sup>3</sup> / <sub>4</sub>	1 3 <sup>3</sup> / <sub>4</sub>	1 3 <sup>3</sup> / <sub>4</sub>	1 3 <sup>3</sup> / <sub>4</sub>	—	
March	1 3 <sup>3</sup> / <sub>4</sub>	1 3 <sup>3</sup> / <sub>4</sub>	1 3 <sup>3</sup> / <sub>4</sub>	1 3 <sup>3</sup> / <sub>4</sub>	26th March -	
April	1 3 <sup>3</sup> / <sub>4</sub>	1 3 <sup>3</sup> / <sub>4</sub>	1 3 <sup>3</sup> / <sub>4</sub>	1 3 <sup>3</sup> / <sub>4</sub>	{ 2nd April - 9th April - 16th April - 23rd April - 30th April -	
May	1 3 <sup>3</sup> / <sub>4</sub>	1 3 <sup>3</sup> / <sub>4</sub>	1 3 <sup>3</sup> / <sub>4</sub>	1 3 <sup>3</sup> / <sub>4</sub>	{ 7th May - 14th May - 21st May - 28th May -	
June	1 3 <sup>3</sup> / <sub>4</sub>	1 3 <sup>3</sup> / <sub>4</sub>	1 3 <sup>3</sup> / <sub>4</sub>	1 3 <sup>3</sup> / <sub>4</sub>	{ 4th June - 11th June - 18th June - 25th June -	
July	1 3 <sup>3</sup> / <sub>4</sub>	1 3 <sup>3</sup> / <sub>4</sub>	1 3 <sup>3</sup> / <sub>4</sub>	1 3 <sup>3</sup> / <sub>4</sub>	{ 2nd July - 9th July - 16th July - 23rd July - 30th July -	
August	1 3 <sup>3</sup> / <sub>4</sub>	1 3 <sup>3</sup> / <sub>4</sub>	1 3 <sup>3</sup> / <sub>4</sub>	1 3 <sup>3</sup> / <sub>4</sub>	{ 6th August - 13th August - 20th August - 27th August -	
September	1 3 <sup>3</sup> / <sub>4</sub>	1 3 <sup>3</sup> / <sub>4</sub>	1 3 <sup>3</sup> / <sub>4</sub>	1 3 <sup>3</sup> / <sub>4</sub>	{ 3rd September - 10th September -	
October	1 3 <sup>1</sup> / <sub>8</sub>	1 3 <sup>3</sup> / <sub>4</sub>	1 3 <sup>1</sup> / <sub>8</sub>	1 3 <sup>3</sup> / <sub>4</sub>	—	
November	1 3 <sup>3</sup> / <sub>4</sub>	1 3 <sup>3</sup> / <sub>4</sub>	1 3 <sup>3</sup> / <sub>4</sub>	1 3 <sup>3</sup> / <sub>4</sub>	—	
December	1 3 <sup>1</sup> / <sub>8</sub>	1 3 <sup>3</sup> / <sub>4</sub>	1 3 <sup>1</sup> / <sub>8</sub>	1 3 <sup>3</sup> / <sub>4</sub>	—	

Month	OPENING BALANCE			GOLD STANDARD RESERVE.			STANDARD FUND  London late, I
	Treasury	Gold Standard Reserve	Total	Securities Sold or Maturing	Bills and Transfers appropriated and Dividends	Total.	
	£	£	£	£	£	£	
<b>1907.</b>							
September -	5,146,111	38,406	5,184,517	800,000	209,054	1,009,054	Gold India being
October -	4,229,470	—,603	4,227,867	—	72,288	72,288	1908
November -	3,381,465	70,685	3,452,150	—	29,065	29,065	the last
December -	3,165,945	—	3,165,945	700,000	13,810	713,810	number period
<b>1908.</b>							of the
January -	4,051,818	13,810	4,065,628	—	85,940	85,940	its of
February -	3,484,938	—	3,484,938	—	—	—	list for
March -	4,797,306	—	4,797,306	1,678,125	328,098	2,006,223	sales
April -	4,607,231	1,131,223	5,738,454	50,436	74,994	125,430	1908
May -	2,192,008	397,653	2,589,661	1,010,078	21,772	1,031,850	with the
June -	3,167,994	278,503	3,446,497	1,568,156	—66	1,568,090	and
July -	4,949,148	—32,407	4,627,741	1,487,984	65,757	1,553,741	met,
August -	2,330,227	408,334	2,788,561	2,251,585	296	2,251,881	now
September -	2,214,029	—375,765	1,838,244	472,562	—	472,562	it for
October -	3,163,193	76,777	3,239,970	—	35,932	35,932	years
November -	1,317,160	112,709	1,429,869	803,125	17,915	821,040	—
December -	1,236,308	—	1,236,308	—	—	—	—
				10,822,051	954,855	11,776,906	—

## APPENDIX IV

## SUPPLEMENTARY STATEMENTS TO ACCOMPANY MEMORANDUM ON GOLD STANDARD RESERVE, SUBMITTED BY MR L ABRAHAMS, C B, ASSISTANT UNDER SECRETARY OF STATE FOR INDIA

In connection with the question of the amount up to which the London branch of the Gold Standard Reserve should be allowed to accumulate, I submit three additional statements

Statement 1—The summary on page 92 of my Memorandum on the Gold Standard Reserve gave information about the cash transactions of the India Office from 1st September 1907 to 31st December 1908, that period being chosen because it included all the special measures taken in 1907 and 1908 for supporting exchange, or arising out of the necessity for so doing, the last of such measures having been the issue of 2,500,000*l.* India Bills in December 1908. Statement 1 below gives corresponding information for the period from 1st September 1907 to 31st August 1908, the latter month being the one in which the exchange crisis may be considered from some points of view to have ended since no application was received after 13th August for the bills on London offered by the Government of India, and substantial sales of Council Bills were made by the Secretary of State in September 1908. As there is room for difference of opinion as to the period over which the difficulties of 1907 and 1908 should be regarded as having extended, and consequently as to the extent of the exceptional demands that had to be met, the Royal Commission may be glad of the alternative calculation now submitted.

Statement 2 gives the balance of trade on private account for each financial year from 1871-72 to 1912-13, and shows that the two years 1907-08 and 1908-09, in which the exchange crisis of 1907 and 1908 occurred were within a very small amount of being the worst two successive years in the period of 42 years.

Statement 3 gives for the period from November to October in each year from 1892-93 to 1911-12 information, similar to that contained in the enclosure to Lord Morley's Despatch, No 82, dated 2nd July 1909 (*See* page 175 of the Correspondence accompanying my Memorandum on the Gold Standard Reserve). It shows in a much more striking manner than do the figures for financial years the very exceptional nature of the conditions that prevailed in 1907 and 1908.



## STATEMENT 1

INDIA OFFICE CASH TRANSACTIONS, 1st September 1907 to 31st August 1908  
(Summary of figures for those months given in Statement E, page 104)

## GOLD STANDARD RESERVE

		£			£
Opening Cash balance (apart from securities)	-	38,406	Invested	-	2,823,563
Cash Receipts)			Payments to meet bills drawn by the Government of India on Secretary of State and sold to bankers, merchants, &c, in India, 8,038,000/ less 375,785/ met temporarily from Treasury Balances	-	7,662,215
Dividends and remittances from India	-	901,008	Closing Cash balance [The market value of the sterling securities at this date was 6,415,931/]	-	-
Securities sold or repaid on maturity	-	9,546,364			
		10,447,372			
Total	-	<u>10,485,778</u>	Total	-	<u>10,485,778</u>

## OTHER TRANSACTIONS

		£			£
Opening balance	-	5,146,111	Railways Payments on Capital Account, including discharge of railway loans	-	9,416,078
Railways Proceeds of railway loans	-	12,263,323	Purchase of silver	-	1,523,501
General purposes			General Purposes Payments including 375,785/ temporarily used to meet Bills on London (shown under Gold Standard Reserve)	-	19,453,772
Receipts from sale of Council Bills and Transfers and Miscellaneous	-	8,872,946	Closing balance	-	2,214,029
Gold withdrawn from Paper Currency Reserve	-	4,325,000			
Proceeds of India Bills issued for general purposes	-	2,000,000			
		15,197,946			
Total	-	<u>32,607,380</u>	Total	-	<u>32,607,380</u>

The exceptional demands on India Office resources, arising from the unfavourable position of exchange in 1907 and 1908, are shown in the Summary above to have been, during the period from 1st September 1907 to 31st August 1908, as follows —

		£
Shown under "Gold Standard Reserve" Payments to meet bills, &c	-	7,662,215
Shown under "Other Transactions" Excess of Payments for General Purposes (19,453,772/ ) over Receipts from Sale of Council Bills and Miscellaneous (8,872,946/ )	-	10,580,826
Total	-	<u>18,243,041</u>

STATEMENT 2

Net Exports of Merchandise and Treasure from India on Private Account from 1st April to 31st March in each year from 1871-72 to 1912-13 (from yearly Trade Tables)

Year	Rs	Rate of Exchange		£
		s	d	
1871-72	22,22,24,320	1	11 126	21,413,165
1872-73	21,47,17,950	1	10 754	20,357,051
1873-74	19,40,26,180	1	10 351	18,069,496*
1874-75	15,11,86,850	1	10 156	13,957,066*
1875-76	17,75,98,790	1	9 626	16,003,127*
1876-77	18,10,97,470	1	8 508	15,474,779*
1877-78	10,65,93,860	1	8 791	9,234,137*
1878-79	21,16,62,120	1	7 794	17,456,833
1879-80	17,70,44,250	1	7 961	14,724,959
1880-81	16,64,36,380	1	7 956	13,839,185
1881-82	24,68,44,820	1	7 895	20,462,407
1882-83	20,92,55,260	1	7 525	17,023,787
1883-84	23,52,10,140	1	7 536	18,771,105
1884-85	18,05,96,990	1	7 308	14,528,028
1885-86	17,62,63,410	1	6 247	13,401,160
1886-87	20,39,83,900	1	5 441	14,823,680
1887-88	15,77,47,470	1	4 898	11,106,736
1888-89	18,26,63,900	1	4 379	12,466,046
1889-90	21,21,93,600	1	4 566	14,646,663
1890-91	11,25,32,420	1	6 099	8,486,351
1891-92	29,86,90,770	1	4 733	20,824,969
1892-93	33,85,01,510	1	2 984	21,133,778
1893-94	18,09,01,140	1	2 546	10,964,056
1894-95	37,24,65,710	1	1 100	20,330,420
1895-96	35,82,00,590	1	1 638	20,354,749
1896-97	23,85,01,410	1	2 450	14,359,772*
1897-98	14,92,84,930	1	3 406	9,582,848*
1898-99	33,86,53,560	1	3 978	22,545,861
1899-1900	25,25,58,510			16,837,234*
1900-01	22,10,19,915			14,734,661*
1901-02	31,76,00,865			21,173,391*
1902-03	33,53,17,390			22,337,826
1903-04	44,34,24,000*			29,561,600
1904-05	35,89,70,925			23,931,395
1905-06	44,16,24,315	1	4	29,441,621
1906-07	46,77,04,935			31,180,829
1907-08	19,97,62,680			13,317,512*
1908-09	15,05,37,735			10,035,849*
1909-10	39,63,55,620			26,423,708
1910-11	47,97,89,085			31,985,939
1911-12	46,20,88,130			30,805,875
1912-13	41,37,91,724			27,586,115

\* In the years marked with an asterisk (1873-74, 1874-75, 1875-76, 1876-77, 1877-78, 1896-97, 1897-98, 1899-1900, 1900-01, 1901-02, 1907-08, and 1908-09) the expenditure on Famine Relief exceeded 500,000/

## STATEMENT 3

FOREIGN TRADE of India on Private Account for the period from 1st November to 31st October in each year from 1892-93 to 1911-12 (Rupees converted into sterling at the rate of Rs 15 = 11)

Year	Merchandise			Gold	Silver	Merchandise, Gold, and Silver
	Exports	Imports	Net Exports	Net Imports	Net Imports	Net Exports
	1	2	3	4	5	6=3+4+5
1892-93	£ 71,580,000	£ 45,010,000	£ 26,570,000	£ 290,000	£ 9,750,000	£ 16,530,000
1893-94	73,610,000	49,440,000	24,170,000	— 2,260,000	5,890,000	20,540,000
1894-95	72,130,000	45,940,000	26,190,000	— 480,000	3,980,000	22,690,000
1895-96	74,100,000	49,390,000	24,710,000	2,030,000	4,110,000	18,570,000
1896-97	64,580,000	43,790,000	20,790,000	2,640,000	5,190,000	12,960,000*
1897-98	73,930,000	45,740,000	28,190,000	3,180,000	4,570,000	20,440,000*
1898-99	73,670,000	48,400,000	25,270,000	4,610,000	2,660,000	18,000,000
1899-1900	69,560,000	46,920,000	22,640,000	6,130,000	940,000	15,570,000*
1900-01	78,940,000	55,130,000	23,810,000	3,810,000	2,450,000	17,550,000*
1901-02	83,700,000	52,730,000	30,970,000	3,420,000	5,250,000	22,300,000*
1902-03	94,510,000	54,050,000	40,460,000	9,560,000	3,750,000	27,150,000
1903-04	101,010,000	61,360,000	42,650,000	12,920,000	5,140,000	24,590,000
1904-05	106,470,000	66,070,000	40,400,000	9,900,000	3,970,000	26,530,000
1905-06	111,230,000	72,190,000	39,040,000	7,500,000	3,710,000	27,830,000
1906-07	129,270,000	79,050,000	50,220,000	13,150,000	6,060,000	31,010,000
1907-08	99,530,000	87,420,000	12,110,000	4,740,000	8,560,000	— 1,190,000*
1908-09	111,240,000	75,840,000	35,400,000	3,930,000	6,260,000	25,210,000*
1909-10	138,340,000	82,330,000	56,010,000	16,210,000	5,700,000	34,100,000
1910-11	150,560,000	89,850,000	60,710,000	20,470,000	4,740,000	35,500,000
1911-12	160,810,000	100,340,000	60,470,000	29,910,000	3,550,000	27,010,000

\* See Footnote to Statement 2

## APPENDIX V

CORRESPONDENCE TO ACCOMPANY MEMORANDUM AND STATEMENTS ON GOLD  
STANDARD RESERVE, HANDED IN BY MR L ABRAHAMS, C B, ASSISTANT  
UNDER SECRETARY OF STATE FOR INDIA

Letter from the GOVERNMENT OF INDIA to the SECRETARY OF STATE,  
No 302, dated 6th September 1900

MY LORD,

In our Despatch No 301 of 24th August 1899, we wrote, with reference to paragraph 60 of the Report of the Indian Currency Committee, 1898 "The proposal made by the Committee that any profit made on rupee coinage should be held in gold as a special reserve has not escaped our attention, but the need for the coinage of additional rupees is not likely to occur for some time, and a decision on this point may conveniently be deferred."

In our Despatch No 421 of 14th December 1899, in view of the large influx of gold which had then begun, we discussed the question of the amount or proportion of gold which we can conveniently hold in the Paper Currency Reserve, bearing in mind that presenters of notes may, for some time to come, prefer rupees to sovereigns, and that it is expedient to meet their wishes as far as possible. We then estimated that it was desirable to hold in rupees 9½ crores, with which amount we believed that there would be practically no fear of our having to exercise our option of paying currency notes in sovereigns against the wishes of the presenter. The note circulation being then about 27 crores, the deduction of the investment of 10 crores and the silver holding of 9½ crores left about 7½ crores or 5,000,000l to be held in gold. And the immediate measure proposed was that when the stock of gold reached 5,000,000l the Currency Offices should be instructed to offer sovereigns to presenters of notes, but to give rupees to anyone who might object to receive sovereigns and who might ask for rupees. We said that it was not possible at that time to propose a more definite policy than that of paying out some gold when the limit suggested had been passed, that we would watch with close attention what befell the gold paid out and the attitude of the public, that we hoped, proceeding in this tentative fashion, to be able in the course of the summer of 1900 to give a more confident answer to the important question discussed, "and perhaps also to form an opinion as to when it may be desirable for the Government to make some addition to the rupee coinage."

2. As will be seen from the table in paragraph 3 of our Honourable Colleague Sir E Law's Minute of 28th June, appended to this Despatch, the receipts of gold continued and increased after December last. For more than eight months the gold in the Currency Reserve has exceeded, and the silver has been less than, the limits suggested in the Despatch of that month. By the middle of January the stock of gold in the Currency Reserve in India reached 5,000,000l. The proposal made in that Despatch was at once brought into operation, later on we sent supplies of sovereigns to the larger District Treasuries, with instructions that they should be issued to anyone who desired to receive them in payments due or in exchange for rupees, and in March we directed the Post Office to make in sovereigns all payments of Money Orders in the Presidency Towns and Rangoon, and we requested the Presidency Banks to make in the Presidency Towns and Rangoon payments on Government account as far as possible in sovereigns. These measures were taken, not so much in the expectation that they would in the early future relieve us of any large part of our surplus gold, but in the

hope that they would accustom the people to gold, would hasten the time when it will pass into general circulation in considerable quantities, and by so doing would mitigate in future years the difficulties that we were experiencing from the magnitude of our stock of gold and the depletion of our stock of rupees

3 In order to meet those difficulties and to secure, if possible, that we should have enough rupees for payment to presenters of currency notes and tenderers of gold, we began to coin additional rupees. In January and February we purchased in India sufficient silver to coin about a crore of rupees; and, at the same time, we re-coined into rupees between 30 and 40 lakhs of old rupees which had been withdrawn from circulation. Subsequently we requested your Lordship to make the following purchases of silver for coinage —

In March 500,000*l* worth,  
In April 500,000*l* worth;  
In May 500,000*l* worth, and  
In June 400,000*l* worth

These requests were complied with and the coinage is still proceeding. In May we also obtained from the Maharaja of Gwalior a loan in the shape of Gwalior coins, worth about 45 lakhs, which we have coined into about 69 lakhs of new rupees. The total new coinage that we have undertaken accordingly amounts to about 6½ crores.

4 In order further to relieve our difficulties we, in May, ceased receiving gold bullion below standard fineness, other than the produce of the Indian mines, and also directed that sixty days should be fixed as the period for the payment of certificates in respect of gold tendered under the Notification No. 2662 of 26th June 1893.

5 From the above short summary of events which have occurred in the present calendar year, it will be evident that the time has now come when it is desirable to arrive at an early decision on both the questions described in paragraph 1 of this Despatch. Our Honourable Colleague Sir E. Law has discussed the subject in all its bearings, and stated the measures which he recommends for adoption, in a comprehensive Minute, dated 28th June, which forms an enclosure to this Despatch. We also append a Minute, dated 8th July, by His Excellency the Viceroy, making observations and inquiries regarding Sir E. Law's proposals, and two Minutes by Sir E. Law, dated 21st July, and 23rd August, explaining and, in one or two points, modifying his proposals.

6 Our Honourable Colleague's proposals may be summarised as follows —

- (1) To adopt the recommendation in paragraph 60 of the Report of the Indian Currency Committee, that the profits on the coinage of rupees should not be credited to the Revenue or held as a portion of the ordinary balance of the Government of India, but should be kept in gold as a special reserve entirely apart from the Paper Currency Reserve and the ordinary Treasury Balances.
- (2) To add to the special reserve in gold, formed primarily by the profits on coinage, the annual interest on the investment of the Paper Currency Reserve.
- (3) To use in future for the purchase of silver for coinage into rupees any excess over 7,000,000*l* in the stock of gold in the Paper Currency Reserve.
- (4) To transfer very gradually the existing investment of 10 crores from Government of India Rupee Securities to Government of India Sterling Securities.
- (5) (a) To gradually increase the amount of the Paper Currency Investment, at present 10 crores, to a sum approximating to 50 per cent of the circulation of Currency Notes, the increase being 5 crores if the circulation remains at its present level of about 30 crores.

- (b) To make the additional investment in British Consols
- (c) To take the funds for the additional investment from the stock of 7,000,000<sup>l</sup> of gold remaining in the Currency Reserve under proposal (3), thus reducing that stock to about £3½ millions, the investment to be made gradually

7 We unanimously support (1), (2), and (3) of the above proposals and strongly recommend them to your Lordship for sanction. We submit the following explanations of the reasons in favour of these three proposals and of the manner in which they would be worked in practice

8 With regard to proposal (1), the fact that it was unanimously recommended by the Indian Currency Committee invests it with great authority and enables us to refrain from entering into any lengthy justification. The only objection to it of any importance is that in a country like India, which borrows every year for the construction of railways and canals, it may be said to be generally inexpedient to withdraw any portion of the receipts from the general balances to be employed specially, since that course involves an increase of the annual loans by the amount so withdrawn, and consequently an increased interest charge. But there are objects of sufficient importance to justify such a proceeding, and we think the maintenance of a stock of gold, adequate to ensure the success of our currency policy, to be emphatically such an object. As will appear from our remarks regarding proposal (3), we have found by experience that we cannot maintain in the Paper Currency Reserve a stock of gold of the magnitude which may be required in possible circumstances. We therefore consider it desirable that a reserve of gold should be formed outside the Currency Reserve, which will supplement the stock in that Reserve for the present, and will in time take the place of that stock and relieve us of the necessity for keeping anything more than a small amount of gold in the Currency Reserve, this would be in accordance with the view of Lord Elgin's Government that the Reserve should not be used for the general purposes of our exchange policy. We consider the formation of a Special Gold Reserve to be an object of sufficient importance to justify the ear-marking of the receipts from profit on coinage as proposed

- 9 The steps required to carry out this measure will be the following —
- (a) To direct that the profits on coinage shall cease to be credited to a Revenue Head and shall be taken to a special Debt Head of receipt.
- (b) To direct that the amount of the profits shall be paid in rupees into the Paper Currency Reserve, releasing therefrom an equivalent amount of gold
- (c) To direct that the gold so released shall be held as a "Special Gold Reserve" apart from the ordinary Treasury Balances
- (d) The current gold transactions, receipts and issues, will continue for the present to be passed through the Currency Reserve. When the amount of gold in that Reserve falls below the amount required for these current transactions, there will be paid from the "Special Gold Reserve" into the Currency Reserve the sum required to make up that amount, releasing rupees
- (e) The rupees so released will be held in the "Special Gold Reserve" to be available for return to the Currency Reserve in the event of the current of trade requirements turning, at not too great an interval of time, in the contrary direction and creating again a demand for rupees. If the demand continued for a long time to be for sovereigns, and if it exhausted our gold stock, we should contemplate meeting the demand in the first instance by selling the sterling investments of the Currency Department.

We do not consider it necessary at present to contemplate having recourse to the last resort of melting down rupees and selling the bullion for gold.

10 It remains to consider the extent to which we can give early effect to this proposal. In regard to future coinage we apprehend no difficulty. To

\* Paragraph 7 of Despatch No. 131 of 2nd June 1896 (not printed).

replace, say, 500,000l, only 75 lakhs of rupees are required, the silver purchased with that sum of gold will, however, be coined into over 100 lakhs, the difference being the profits on the coinage. The coinage will thus itself create the funds for the payments to the Currency Reserve under (b) of the preceding paragraph, and we shall be in the same position in respect of general resource operations as if no coinage had been found necessary.

11. In regard to the profits on the coinage which has been already undertaken, as detailed in paragraph 3 above, there is a difficulty. The enormous demands on our balances caused by the famine, in the way of direct expenditure on famine relief, indirect expenditure, agricultural advances, and loans to Native States, have compelled us to use the profits on the past coinage in aid of our general balances, in order to keep our borrowing this year within the amount which there was a hope of raising on reasonable terms. It will therefore be impossible for us to pay into the Currency Reserve immediately the number of rupees representing these past profits. For these we shall immediately take only step (a) of paragraph 9, and the amount of the profit on the coinage detailed in paragraph 3 both this year and last will remain as a book credit of the Debt Head until we are in a position to make the payments into the Currency Reserve. Thus we expect to be able to do gradually as the famine loans and advances to Native States are repaid to us. The necessity for using the profits on coinage in aid of our general balances this year may be held to have arisen because of our decision to make those loans, and it will be appropriate to consider them as in a general way hypothecated for the desired payments into the Currency Reserve.

12. Proposal (2) of paragraph 6 is an extension of the recommendation of the Indian Currency Committee, and the same general observations apply. We think it desirable that the formation of the "Special Gold Reserve" should be hastened by any convenient addition, and we consider the annual interest on the Currency Investment an appropriate item to devote to this purpose. The interest on the present investment is Rs 34,70,000.

13. Proposal (3) of paragraph 6 is one that has been forced upon us by our embarrassing experience since the month of January. Soon after the large gold receipts had reduced the stock of rupees in the Currency Reserve below the limit of 9½ crores, mentioned in our Despatch of December 1899, the Comptroller-General in February last proposed that we should adopt such a rule as is now proposed and convert into rupees any gold in the Reserve in excess of a certain amount. He was led to make this suggestion by the very great practical difficulties that he was then encountering in administering the Treasuries and the Currency Department, and in meeting the demands made upon him for rupees in exchange for notes and for gold. We were not at that time convinced that so large a coinage as the proposal involved would be necessary. We hoped that the difficulties in meeting the demand for rupees would come to an end with the termination of the Burma rice season, before undertaking further coinage we desired to await the experience of the season of slack trade, and to see whether any large portion of the rupees which had been passed into general circulation in the preceding sixteen months would return to the trade centres after the cessation of our heavy famine expenditure. All that we thought it necessary then to do in the direction of further coinage was to ask your Lordship to purchase 500,000l worth of silver, a step which we took on 5th March. The difficulties however, did not disappear, but increased in intensity. On 11th April the Calcutta Currency Office was obliged to refuse to give rupees in the encashment of a small amount of currency notes presented on that day, and for some weeks thereafter we were in daily fear that there might be a recurrence of that incident. To prevent such a risk, we made the successive additions to the coinage set forth in paragraph 3. Pending the experience which we awaited and the consideration of the general question which we have now given to it, we have been specially careful to limit these additions to the lowest amount which, on the best calculations possible, seemed likely to enable us to meet the demand for rupees during the present rute season, or up to October next. We are not without some anxiety lest events should prove that, in our desire to avoid unnecessary coinage, we have limited the amount too much, the

Comptroller-General has already sounded some notes of warning, but we trust that we shall not be forced to telegraph a request for further purchases of silver in anticipation of the arrival of this Despatch. Although we may, with difficulty, meet the demands up to October with the rupee balance so much lower than the limit of complete safety, the experience of the last six or eight months has convinced us that we shall not be justified in attempting to face the coming busy cold season and the demands of the Burma rice trade with the rupee balance in the Currency Reserve lower than results from a maximum balance of gold of 7,000,000*l*. That maximum will leave a rupee balance of about 9½ crores if the circulation remains at its present level of about 30 crores. We do not, of course, propose to be bound in any way to adhere to that maximum, we propose it for the present only, unforeseen circumstances, such as a variation in the note circulation or more rapid progress in the use of sovereigns as money, may at any time in the future render it expedient to suggest a change in the amount.

14 We may mention that we have closely watched the result of the measures described in paragraph 2. The issues of gold have been considerable, but much has come back to us through the Currency Department and the Presidency Banks. The Comptroller-General estimated the amount remaining in circulation at the end of June at over a million and a quarter out of nearly two millions issued up to that time, but there are many uncertain data in the calculation. We are not yet able to say that gold has passed into use as money to any appreciable extent.

15 It is very desirable that we should feel assured of being able to meet the public demand for rupees, as indicated by the presentation of currency notes and gold. We therefore strongly press on your Lordship the expediency of sanctioning the above proposal for further coinage. If this sanction is accorded, we request that the purchases may be begun as soon as convenient after the receipt of this Despatch, being made in such instalments as may be thought best. Before the purchases are completed, we shall be gaining the experience that we desire, but cannot safely await, of the period after the cessation of the famine. If rupees do come back to the trade centres after the famine, and are presented for gold or for notes, it may be unnecessary to proceed with further purchases beyond a first instalment. On the other hand, if our stock of gold continues to increase, the purchases will have to be increased beyond the amount which now appears necessary.

16 The stock of gold in the Currency Reserve on 15th August consisted of 500,000*l* in London and nearly 8,500,000*l* in India. The London gold was released on 29th August, as intimated by telegram. The purchases required to make our proposed reduction will, therefore, on the present figures, be about 1,500,000*l*, and the additional coinage will be about 3½ crores of rupees. This with the coinage already undertaken will constitute a very large addition in the current year. But it is one which is made in response to a clear public demand, and, as Mr Dawkins stated in paragraph 30 of the Budget Statement of last March, additions to the coinage will be as nearly automatic as is possible in the circumstances if we make them in close accordance with the demands of trade. Moreover, the possible evil effects of what may in the future turn out to be excessive additions to the coinage will, we think, be mitigated by the proposal we have made—see clause (e) of paragraph 9 above—for the retention in the "Special Gold Reserve" of rupees found to be in excess of public requirements, and presented to be exchanged for sovereigns.

17. But we do not wish our proposal to be considered as dependent on such arguments as those just stated. We make it primarily on the practical ground that we consider it necessary in order to enable us to fulfil an obligation which, though we are not, and do not propose to be, legally committed thereto, we think it desirable to undertake so long as we can do so without excessive inconvenience, namely, to pay rupees to all tenderers of gold and to give rupees in encashment of currency notes to all who prefer rupees to sovereigns.



18 Proposal (4) of paragraph 6 is for the conversion of the present Government Rupee Paper Investment of 10 crores into Sterling Securities of the Government of India. Our Honourable Colleague proposes to make this change very gradually, in order to avoid causing a material depreciation in the market value of rupee paper, and a consequent injurious effect on future rupee loans. Section 20 of the Paper Currency Act requires the Reserve to be invested "in Securities of the Government of India." If, as appears to be the case, this expression includes sterling as well as rupee securities of the Government of India, and the change can be made without fresh legislation, we recommend this proposal also for sanction.

19 With regard to proposal (5) of paragraph 6, the following doubts are entertained in some quarters —

Firstly, doubt is felt as to the desirability of reducing, even gradually, by so large an amount as is proposed, the existing gold stock in the Paper Currency Reserve, until the stock in the new Special Gold Reserve has attained some magnitude.

Secondly, it is doubted whether an increase of the Paper Currency Investment by so large an amount as from 10 to 15 crores will be generally approved. If your Lordship directs us to proceed with the proposal, the first step would be to consult the Chambers of Commerce, setting before them the facts of the note circulation up to the present time, as was done in the enclosures of the Despatch No 131 of 2nd June 1896, when the last increase of the investment, from 8 to 10 crores, was proposed.

Thirdly, to give effect to the proposal, legislation will be required both in respect of the increase of the investment and in respect of the power to make the investment in British Consols. And doubts are felt as to the expediency of introducing, at the present time, fresh legislation to ensure the stability of a currency policy which, though it has so far been attended with gratifying success, is still not entirely beyond the experimental stage, such legislation might possibly excite apprehensions both as to the confidence entertained by the Government of India in their own policy, and as to the success of the policy itself. These doubts are, however, not shared by our Honourable Colleague in the Finance Department.

20 Doubtless your Lordship will be able to estimate the value that is to be attached to these doubts and to advise us as to the steps that it may be desirable to take in pursuance of the object which we are all agreed in commending to your Lordship's favourable attention.

We have, &c,  
(Signed) CURZON OF KEDLESTON,  
&c, &c

Enclosures of Letter from the Government of India to the Secretary of State, No 302, of 6th September 1900

I—FIRST MINUTE BY THE HONOURABLE SIR EDWARD LAW

*Gold Exchange Fund*

Circumstances seem to render advisable an early decision on the question of the proper manner of dealing with profits derived from the coinage of rupees.

This question is not only important in itself, but it also involves important subsidiary considerations.

2 I think it is necessary before recording an opinion on the question of the manner in which it is desirable to deal with the profits on coinage, to consider the actual situation as regards the Currency Reserve and the accumulation of gold which it now includes and which has become an unexpected embarrassment.

3 The following table shows the steady increase of gold in the Currency Reserve and the corresponding decrease in silver —

	Silver Coin	Gold	Gold held in England under Act II of 1898
	Rs	Rs.	Rs.
On 15th April 1899 -	14,62,20,568	3,24,97,251	—
" 15th May 1899 -	14,30,68,556	3,42,77,538	—
" 15th June 1899 -	14,71,00,255	3,44,44,964	—
" 15th July 1899 -	15,59,26,213	3,54,21,676	—
" 15th August 1899 -	15,55,93,533	3,83,50,786	—
" 15th September 1899 -	13,68,50,748	3,83,50,786	—
" 15th October 1899 -	12,35,18,157	4,17,17,612	—
" 15th November 1899 -	10,84,49,860	5,56,46,119	97,50,000
" 15th December 1899 -	9,03,66,872	6,33,25,197	1,12,50,000
" 15th January 1900 -	6,99,10,036	7,58,68,068	1,80,00,000
" 31st January 1900 -	6,77,84,653	8,14,70,551	2,25,00,000
" 15th February 1900 -	5,85,16,374	9,50,70,065	2,25,00,000
" 28th February 1900 -	4,93,20,678	10,08,99,396	2,25,00,000
" 15th March 1900 -	4,96,41,326	10,82,66,608	2,25,00,000
" 31st March 1900 -	5,23,72,122	11,25,00,187	2,25,00,000
" 15th April 1900 -	4,13,32,582	11,78,55,657	2,25,00,000
" 30th April 1900 -	3,69,69,539	11,94,94,965	2,25,00,000
" 15th May 1900 -	3,66,18,336	12,39,23,178	2,25,00,000
" 31st May 1900 -	4,67,03,314	12,47,47,395	1,50,00,000
" 7th June 1900 -	4,76,11,309	12,52,31,860	1,50,00,000
" 18th June 1900* -	5,47,36,063	12,56,64,331	75,00,000
" 22nd June 1900† -	5,96,27,989	12,57,86,505	75,00,000
" 30th June 1900† -	6,93,63,359	12,72,78,445	75,00,000
" 7th July 1900† -	6,91,11,510	12,81,72,639	75,00,000
" 15th July 1900† -	7,04,27,913	12,81,85,681	75,00,000
" 22nd July 1900† -	7,11,96,228	13,31,70,976	75,00,000
" 31st July 1900† -	6,89,60,523	13,03,80,786	75,00,000
" 7th August 1900† -	6,57,83,707	12,77,28,222	75,00,000
" 15th August 1900† -	6,33,61,648	12,69,36,741	75,00,000
" 22nd August 1900† -	5,79,71,935	12,72,03,794	75,00,000

\* The 18th instead of the 15th June is taken so as to include the transfer of 500,000† of the gold held in London which took place on the 16th June

† These later figures were added after this minute was written

4 It is important to enquire into the causes which have led to this unexpectedly rapid accumulation of gold in the Currency Reserve. Increase of population, economic development, and wastage of coins are all causes which must produce a steady demand for additions to the coin circulation, and though my impression is that, under ordinary circumstances, India requires relatively only a very limited circulation, I am inclined to think that, even without abnormal influences, the amount of coin in circulation had latterly become insufficient to meet ordinary requirements.

5 But, besides the ordinary factors inducing demands for an increase of currency, abnormal influences have recently very seriously affected the situation. The great bulk of the population is purely agricultural. The agriculturist, in ordinary times, has little requirement for money in the shape of silver coin, he is himself the producer of a large proportion of the food he consumes and his other wants which must be satisfied by purchase are trifling. In seasons of famine, however, the situation is changed. The food consumed by the suffering agriculturist must be purchased and paid for with coin, and as credit dries up in times of distress, all his other requirements must equally be paid for in cash.

6 I think that we have only to consider the vast numbers who, under ordinary circumstances, produce their own food and enjoy credit for their small purchases and whose wants can now only be supplied by cash purchases, to realise the enormous increase in the circulating medium required to meet this unusual situation. I conclude, therefore, that the chief cause of the continual tenders of gold which has passed into the Currency Reserve is the large and unusual demand for rupees induced by the famine, and that the general supply of rupees being limited and proving insufficient to meet these extraordinary requirements, a drain was caused on the Currency Reserve,

where, alone, a certain number of rupees could be immediately procured by tendering gold for exchange, further, I may point out that, if my supposition as to the cause of the drain be correct, there is nothing to check it as long as famine continues to cause an unusual and increasing demand for silver coin.

7 The demand for rupees, which rapidly developed in the spring months, has been very great, and the impossibility of immediately satisfying it led to serious and unpleasant consequences in April last. On 11th April the officials of the Currency Department in Calcutta, who, early in the day, had been obliged to refuse to cash currency notes for three lakhs of rupees presented by an important firm in the ordinary course of business, were finally obliged to close the office before the proper time, having no further rupees in hand to meet the current requirements of the general public. This failure in Calcutta was accompanied by the failure of the Treasuries in Cawnpore and elsewhere in the North-Western Provinces to cash notes, which, though not bound by the law to do (elsewhere than at the offices of the respective issue circles), they had been in the habit of doing. In Calcutta much inconvenience was caused to the mercantile and manufacturing community whilst in the provinces, not only were traders and manufacturers inconvenienced, but currency notes immediately became subject to a serious discount reaching to  $\frac{7}{8}$  per cent even in an important commercial centre like Cawnpore, and thus showing that the confidence of the general public in the fiduciary note currency has been unpleasantly shaken.

Such a state of affairs, if not promptly remedied, would inevitably have led to further increasing demands, impossible to satisfy, for encashment of notes at all the Treasuries throughout India.

8 The Government promptly took the only possible measures to meet the situation and made considerable purchases of silver for coinage. The total amount of silver so purchased since the beginning of the financial year will, with the 500,000*l* worth bought in March, result in a total addition of above  $4\frac{1}{2}$ \* crores of rupees to the circulating silver currency. The purchase, transport from Europe, and coinage of silver unfortunately, however, take considerable time, and it was evident that if the demand for rupees, in exchange for tendered gold, continued unabated, requirements would continue to exceed the supply, pending the coinage of the new rupees, it was, therefore, reluctantly determined to temporarily check the importation and tender of gold, by deferring payments for gold bullion tendered at the mints, for 60 days after acceptance. By these measures and by the energy of Mr Cox, the Comptroller-General, in arranging for the rapid transfer of balances from one Treasury to another, the crisis was passed without more serious results than I have mentioned, but it is imperative to take steps to prevent the recurrence of such a situation, and it must be admitted that all the measures enumerated as recently taken were more or less open to objection.

9 The rapid increase of the rupee coinage, without some definite guiding principle regulating the limits of increase, is to be deprecated as likely to induce whatever dangers are to be feared from a subsequent redundancy of rupees. The checking of the importation of gold, even though temporary, when suddenly decided on, must prejudice the legitimate operations of private importers, and, in any case, measures tending to impede the free importation of gold are directly opposed to the wise general policy encouraging such importation. Even abnormal transfers of Treasury balances are objectionable as involving considerable expense and upsetting the carefully considered plans for the manipulation of these balances.

10 It is evident that had the Currency Reserve not been overweighted by the accumulation of gold, the sudden demand for a large number of rupees could have been sufficiently met to give time for further coinage,

\* This includes the outturn (about 351 lakhs) from 1,500,000*l* worth of silver purchased in England in quantities of half a million's worth at a time, and also the outturn (about 69 lakhs) from the Native State coin and silver bullion borrowed from Gwalior and to be repaid next year at its value as bullion. It does not include the outturn from the last purchase (of 400,000*l* worth) in England, or from the purchases in India in 1899-1900.

without incurring all the difficulties which have been experienced during the last few months, and it would therefore seem necessary to take measures for reducing the proportion of gold now held in the Reserve. The question of the advisability of taking such measures involves, however, other important considerations.

11. The recorded opinion of the Currency Commission is unanimous as regards the necessity of a certain gold reserve being held for exchange purposes. No very definite decisions appear, however, to have been arrived at as to the manner of obtaining the gold to form the desired reserve, the conditions under which the reserve fund should be held, or the amount of gold which it is desirable to hold in such a fund. Circumstances, which I have already described in these notes, had, however, already led to a commencement of accumulation of gold in the Currency Reserve at the date when the report of the Currency Commission was published, and this accumulation has, under the influence of extraordinary famine requirements for rupees, since rapidly increased, until on 15th May last we had in the Currency Reserve 9½ millions sterling of gold, equal to a proportion of exactly 4ths of the total stock of bullion and coin held as security for the note issue. By the 18th June the situation had been improved by the release of one million of the gold held in London, and the gold then held in the Currency Reserve was 8,877,622l, or over two-thirds of the whole coin and bullion reserve. The stock of gold we now hold may thus be taken at nine millions sterling.

12. The question of the amount of gold which it may be safe to hold in the Currency Reserve was discussed last November, when the Comptroller-General pointed out very clearly the dangers which might ensue from the accumulation of too large a proportion. At that date the Comptroller-General expressed the opinion that more than 5,000,000l. could not be held in the reserve in safety, and the Honourable Mr. Dawkins, in a note dated 1st December 1899, indicated seven to eight millions as an amount which might be admitted under favourable circumstances. Any decision was, however, reserved until experience should have thrown more light on the subject, but I venture to submit that it has now become necessary to take a decision on this point, in conjunction with that of the proper manner of dealing with coinage profits.

13. And first, I would call attention to certain circumstances and conditions in connection with the accumulation of the existing stock of gold in the Currency Reserve. The sole object for which the Currency Reserve was originally constituted was to provide the necessary security for the encashment of notes, on presentation, and there was certainly no idea of utilising the funds so held for exchange or any other purpose not directly connected with security for the note issue. The connection which has now arisen between the Currency Reserve and the maintenance of exchange appears to me to have come about in a somewhat fortuitous manner. It is of course evident that it is unnecessary to hold the whole of the funds constituting the security for a paper currency in the coin in which the notes issued are payable on demand, and it has, therefore, been admitted that a certain proportion of such funds may be invested in some readily convertible security. The amount thus invested by the Government of India has been varied from time to time, in proportion to the amount of paper currency circulating in the hands of the public, and now stands at 10 crores. The decision fixing the limit of 10 crores was taken after considerable discussion in 1896, and even if it be admitted that this was the maximum prudent limit of safety at that date, circumstances have since shown that it is a limit which can now be safely exceeded. It has been exceeded by the amount of the stock of gold now existing in the Currency Reserve.

14. The fact is that, whereas it is essential that the Currency Reserve shall provide a sufficiency of the class of coin which the public have the right to demand in exchange for notes which they may present for encashment, the existence of gold in the reserve, although it has been declared legal tender, cannot satisfy the legitimate requirements of the public as regards such demands. Owing to the smallness of the sums representing an enormous

proportion of commercial transactions, and the very conservative habits of the people no one at present requires gold as a circulating medium in India, and consequently the existing stock, as far as currency purposes are concerned, is of no immediate practical value in case of sudden demands for the encashment of notes. The only way in which it represents suitable security for the paper currency is that it is convertible by sale into silver bullion, from which bullion rupees may be coined. Hence under existing conditions the gold in the Currency Reserve can only be considered as an investment subject to the same conditions as the 10 crores held in Government securities, and in permitting the present large gold investment the limit of safety for the conversion of notes into the circulating medium required by the people has been passed, and serious difficulties have been encountered, whilst we are far from having acquired the stock of gold requisite for exchange purposes.

15 As a result of these considerations it must, I think, be admitted that the amount of gold which can safely be held in the Currency Reserve must for the present be regulated by the same rules as would guide the consideration of the amount by which the proportion invested in Government securities could be safely increased. Pending an increase in the note circulation (which is, I think, to be desired, and which can, I believe, be attained) or some other change in existing conditions, I am of opinion that a maximum sum of approximately 7,000,000*l* in gold may now be safely held in the Currency Reserve. I should not, however, wish to be bound absolutely to this figure, which is necessarily an arbitrary one, and particularly I should not wish any public announcement to be made which might seem to tie the hands of the Government in the event of circumstances, at present unforeseen, rendering its reduction hereafter desirable.

16 If it be accepted that 7,000,000*l* is the maximum sum which, under existing conditions, can be held in gold in the Currency Reserve, in addition to the 10 crores already invested, it is evident that such assistance as can be obtained from manipulating the reserve will fail to provide the sum in gold which it is considered advisable to hold in connection with the maintenance of a steady exchange. So far no authority has ventured to name a definite sum which should suffice for this purpose, but there is a general consensus of opinion, in which I fully concur, that a very considerable sum is required. The most ready way of obtaining such a large sum is by gold borrowings, but the opinion of the Currency Commission was strongly hostile to such a course, and the question, therefore, remains unanswered. How is the necessary stock of gold to be obtained?

17 I do not presume to offer any cut and dry solution of this difficult problem, but I venture to offer certain suggestions which, if adopted, would, I believe, go a considerable way towards meeting the difficulty. I propose to create a special "Gold Exchange Fund" independent of, but in case of *extraordinary* requirements for exchange purposes to be used in conjunction with, the gold resources of the Currency Reserve. The foundation of this fund would be the profit to be realised by converting into rupees the excess above 7,000,000*l* now held in gold in the Currency Reserve. The total sum in gold held in this reserve being to-day about nine millions sterling, the profit on the proposed operation would be about 700,000*l*.

18 To the 700,000*l* thus provided should be added the profits on coinage since the commencement of the financial year, amounting to 1,000,000*l*. The money representing these profits has, for the moment, been employed to meet demands in connection with the famine, and particularly to enable Government to make large loans and advances to Native States, which include a loan of two crores to the Nizam, but, though profits on coinage form part of our general resources, I am in full accord with the Currency Commission in considering that they should not be treated as revenue, but should be set aside for currency and exchange requirements, and the 1,000,000*l*, which has now been temporarily employed to meet pressing demands should be paid into the "Gold Exchange Fund" as reimbursements of the loans are effected.

I would thus open my new reserve fund with a combined cash and creditor balance amounting to nearly 1½ millions sterling, whilst 7,000,000*l*. would still be held in gold in the Currency Reserve.

19. But this initial reserve is evidently too small, and measures should be taken to strengthen it. In the first place the fund should be steadily increased by the addition of profits on future coinage. It is impossible to say what annual additions to the rupee currency may be required to meet the demands induced by economic development (in which I expect that railway development will take a large part, if we are able, as I hope we may be, to give some impetus to railway development), and by wastage, but from such data as I have been able to obtain, I think it quite likely that the demands on these accounts will reach two crores of rupees per annum, on which the profits to be passed to the Gold Coinage Reserve would be approximately 475,000l per annum.

20. I now pass to the consideration of further measures which may, and should, I think, be taken to provide for additional automatic increase of the stock of gold to be held in the Gold Exchange Reserve. I have already pointed out that the accumulation of gold in the Currency Reserve was due to fortuitous circumstances, and that although up to a certain point it served a most useful purpose, it has nevertheless been proved that the stock of gold which can be held in the reserve can never become adequate to meet the contingencies of exchange requirements, while it may be productive under certain circumstances of considerable difficulties, and I have shown that there is no practical difference under existing conditions between investments in gold or in interest bearing securities, as regards the objects for which the Currency Reserve was created by law.

21. The fact is that when the funds in the Currency Reserve were diverted from their original purpose and taken as providing security for the maintenance of a steady exchange, a radical and perhaps un contemplated change was introduced, and at the risk of being considered somewhat conservative I would venture to suggest that it would be more prudent to revert, as far as possible, to original conditions as regards the treatment of these funds. The original conditions are that all funds in the Currency Reserve must primarily be held with the object and for the purpose of securing the prompt conversion of notes into such coin as the public may legitimately require. The reduction of the stock of gold in the Currency Reserve by the conversion into rupees of the excess above 7,000,000l will, I hope, restore the condition that the reserve should suffice to meet all legitimate requirements for the encashment of notes, but I think that we should go a step further in the same direction, and, as far as possible, follow the old rule of investing such portion of the Reserve as is not required to be held in coin for the conversion of notes. I would propose then to invest at least 5,000,000l of the 7,000,000l, which I consider might now be held in gold independently of the necessity of providing for the immediate exchange of notes into rupee coins. The investment should, of course, be made gradually, though at as early a date as may be permitted by practical considerations in connection with all classes of investment and proper care to avoid undue depletion of our stock of gold metal.

22. I should like to see the total invested securities increased to the equivalent of 12,000,000l, and I think that there would be no objection and even a certain advantage in retaining in gold the uninvested surplus of the 7,000,000l, which we think may continue to be held otherwise than in rupees, without affecting our capability to give rupees for notes when required.

23. The next question is the form in which the proposed investment may best be made. I would propose to invest the sum taken from the 7,000,000l, now in gold, in British Government Funds. I would further propose to gradually convert the present investments in rupee paper into Indian Government gold securities, and when these operations were completed we should have about 12,000,000l in readily saleable gold securities bearing interest at an average rate of about 3 per cent.

24. The interest on 12,000,000l at 3 per cent. would yield annually 360,000l, and I have no hesitation in saying that, as long as funds are required for currency and exchange purposes, this annual sum should be devoted to increasing the stock of gold in the Gold Exchange Fund. In five years, allowing for compound interest, we could add from this source about 1,960,000l to our stock of gold, and in 10 years about 4,250,000l.

25 The net result of my various proposals would be that including gold to be immediately placed in the Gold Exchange Fund, gold to be paid into that fund on the reimbursement of famine loans, gold now existing and to be maintained in the Currency Reserve, profits from future coinage, and accumulation of interest on gold investments belonging to the Currency Reserve, we should, five years hence, hold a stock of gold of about 8,500,000*l*, and in another five years we should have added nearly 4,500,000*l* more. Further, in case of necessity, we should be able to replenish this stock by the profit on the sale and conversion into rupees of our readily saleable gold investments, amounting to 12,000,000*l*, whilst our resources for giving rupees for notes from the Currency Reserve would remain intact.

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

27 In my calculations of the stock of gold which it may be possible to accumulate within a given period, I have taken no account of the possibility of a continued influx of gold resulting from such heavy demands for rupees as we have recently experienced, but I have traced the causes of these demands and stated my reasons for considering them as abnormal, and once the amount of circulation is brought up to the level of normal requirements and the pressure caused by famine requirements is relieved, I believe that a steady annual addition to our rupee circulation (which I have tentatively estimated at two crores) will prevent the recurrence of undesirable pressure and the resulting spasmodic importation of gold.

28 There remains for consideration the question of proper manipulation of the funds which may be accumulated for the purpose of meeting currency requirements and regulating exchange.

29 As regards currency requirements, I do not think that there is any difficulty in arriving at a decision. The resources of the Currency Reserve must in the first place be kept equal to providing for the encashment of notes on presentation, in rupees, and I have proposed for this purpose to hold in silver coin any excess in that reserve above the combined amount of the 10 crores now invested, together with the 7,000,000*l* which I propose to hold in gold and gold securities. Any excess of gold above the sum indicated should be immediately converted into rupees by the purchase and coinage of silver bullion. This general rule will apply as long as the demand is for rupees, but the converse case may arise, it may happen that for the legitimate purposes of trade there may be demands for gold for which rupees may be offered, and that unless this demand for gold is promptly met within reasonable limits, an undesirable fall in exchange would result. Such demands may temporarily be heavy, though I do not think that they are likely to be prolonged. To meet them it will be necessary to give gold out of the Currency Reserve and replace it by the nominal equivalent in rupees, but the amount of gold in the Currency Reserve will be very limited and may easily prove insufficient to meet legitimate requirements, and it will then be necessary to fall back on the stock in the Gold Exchange Fund.

30 Should this necessity arise, I would, in the first instance, retain in the Gold Exchange Fund the rupees which I had been obliged to accept in exchange for gold, in the hope that the demand for gold might prove temporary, and that I might, at not too great an interval of time, be able to once more exchange these rupees for gold to meet demands caused by a contrary current of trade requirements. I would defer as long as possible the expedient, which I look upon as a last resource, of melting down rupees and selling the bullion for gold. Before being driven to such extremities as the adoption of this measure would indicate, we should fall back upon the resources offered by the gold securities held in the Currency Reserve. These securities could, as occasion might arise, be transferred to the Gold Exchange Fund, their place in the Currency Reserve being taken by rupees drawn from the former fund, and when thus transferred they might gradually

be sold to meet requirements. I should point out that under the circumstances referred to, the transfer of rupees to the Currency Reserve, in replacement of investments withdrawn from that fund, could not cause any practical difference in the constitution of this reserve, for although the rupees transferred to the Currency Reserve would not afford any provision for the encashment of notes in the form of currency at the time in demand, the presence of the gold investments belonging to the Currency Reserve would equally fail to provide for the same demand.

31 It may be objected to my proposals that the result of their adoption would be, at the outset, to diminish the stock of gold we now hold, and that it would take some time before the various measures I have suggested would make good that loss.

I think the practical answer to that objection is that practical necessity has already obliged us, without any theorising, to diminish the stock of gold by drawing on it for the purchase of silver to be coined into rupees, and that no definite proposals have hitherto been made for providing for its automatic increase without renewing the difficulties we have experienced through an inconvenient accumulation in the Currency Reserve. The system I have proposed will not reduce by one sovereign the amount of gold which, whilst depending, as we do now, solely on the resources of the Currency Reserve for its retention, we can hold with safety. It does provide for the future automatic increase of our stock of gold, though I admit at a slower rate than is desirable, but half a loaf is better than no bread, and if we adhere to the resolution of declining to borrow to increase our gold stock, I fear that it is impossible to devise any system by which we could attain our desired ends more rapidly.

32 I now conclude, and in so doing I venture to repeat that it has been generally admitted that we should hold a considerable stock of gold for exchange purposes—that no proposal has been authoritatively put forward for providing this stock of gold without sterling borrowing—that the expedient of accumulation of gold in the Currency Reserve has passed the limits of safety and has brought us into difficulties—that it is imperative to prevent the recurrence of such difficulties—and at the same time it is necessary to decide on the means to be adopted for acquiring the stock of gold required to ensure the success of our general currency policy.

(Signed) E. FG LAW.

28th June 1900.

## II

### MINUTE BY HIS EXCELLENCY THE VICEROY.

The main proposal of Sir E. Law is the creation of a new Gold Exchange Fund, the objects of which are clearly described, and the methods of constituting which appear to be the following—

- (1) It is proposed to set aside the recent and all future profits derived from the coinage of silver, to be kept in gold as the nucleus of this fund—to be available for the withdrawal of rupees from circulation and to prevent redundancy of coin, should this be found necessary at a later date. There are some who decline to believe that such a redundancy is at all likely to occur, and who say that however fast we may coin our rupees, we shall find a use for them. I understand Sir E. Law, however, not to share this confidence. The initial objection may be raised that by whatever sum is thus withdrawn from our general balances, we shall increase the amount of our annual loan (which cannot, I imagine, be denied), and it may be said that this is doubtful policy, seeing that we always have to pay more for our investments than we receive from our borrowings. Notwithstanding this objection, the scheme now put forward, which was first suggested by the Currency Committee (paragraph 60), may be justified if its object be to maintain our stock of gold, and thereby to ensure the success of the currency policy upon which we have embarked. Sir E. Law proposes to make a start with the one



- million sterling of profits which has already accrued from our very heavy coinage in the present year. He speaks of this million as having already been employed, and this I understand to be the case. But if this be so, and if we have to pay the equivalent into the new Gold Exchange Fund, will it not mean an addition to the amount that we shall have to raise by loan at our next borrowing?
- (2) From paragraphs 24 and 25 of Sir E. Law's minute I gather that a further source of supply will be "the accumulation of interest on gold investments belonging to the Currency Reserve." Presumably this also involves a subtraction from our ordinary resources and an addition to the amount of our annual loan—a sacrifice which, as in the former case, may be held to be justified by the ulterior objects in view.
  - (3) The third constituent of the new fund is to be the profit derived by taking and converting into rupees any excess that there may be over a maximum of 7,000,000*l.* in the gold stock maintained in our Currency Reserve. The excess is at present 2,000,000*l.*, and the profit would be about 700,000*l.*

All these are proposals that strike me as adaptations, adjustments, or developments of our existing currency policy, which are intended to invest it with greater strength, and which may fairly be submitted to the Secretary of State.

2. But there are two more proposals which Honourable Member advances for the still further replenishment of his fund—

- (4) The first of these is to take 5,000,000*l.* out of the maximum of 7,000,000*l.* to which we shall, as above described, have reduced the stock of gold in the Currency Reserve, and to invest it by gradual degrees in British Government Funds, *i.e.*, in Consols. I confess that I do not quite understand this proposal, which seems to me to take away with one hand what has been conferred with the other. If we have just decided that 7,000,000*l.* ought to be kept in gold in the Currency Reserve, why propose to reduce it simultaneously to 2,000,000*l.*? Honourable Member foresees this objection, for he says in paragraph 31 that the result of his proposals will be at the start to diminish the stock of gold which we now hold, and that it will be some time before that loss is made up. But this result and this risk seem to me to be inconsistent with what I understand to be the main object of his policy, namely, the accumulation of a strong gold reserve. By the proposals which I have marked (1), (2), and (3) he has been steadily accumulating this stock of gold, by (4) it seems to me that he proposes to reduce it.

3. Now the 5,000,000*l.* that is thus subtracted from the Currency Reserve is, I understand, to be added to our general currency investment, which would thereby be raised from 10 crores to 17½ crores (7½ crores = 5,000,000*l.*). I would ask, can we do this without legislation? Does Honourable Member contemplate legislation? Has he considered whether the Secretary of State will sanction such legislation and what public opinion will say about it in this country? Moreover, shall we be wise in raising our currency investment to so high a figure in relation to our existing circulation of currency notes? In our Despatch of 18th January 1900 we contemplated "advancing gradually to a situation in which (instead of having 17 crores of coin as against 10 crores of securities) one-half of the Paper Currency Reserve should be in coin and one-half in securities." But the new proposal would appear to invert the proportions and to involve a complete change of policy.

Again I would ask, if it is now considered desirable to increase the currency investment by 5,000,000*l.*, is it necessary to take this sum from that particular source? Honourable Member admits that the process is intended to be gradual. But why should he not trust to his other gradual processes, already enumerated, *e.g.*, profit on coinage, &c.? Will they not in time give him the sum that he desires?

4—(5) Finally, Sir E Law proposes (paragraph 23) “to gradually convert the present investments in rupee paper into Indian Government “Gold Securities” He does not give any other reason for this than the desire to increase the sum total of his saleable gold securities.

But are not our investments in rupee paper very useful, and very easily convertible into rupees in times when, as lately, we have had a great demand for the encashment of currency notes?

I hazard these doubts about (4) and (5) not because I presume to set up my financial authority against that of Honourable Member, but for two reasons firstly, I am not convinced that they are necessary for the success of his own scheme, secondly, I have a natural suspicion of anything that may tend, in the present early stage of our currency policy to cause alarm. Most things that the Government of India do in the region of finance are misrepresented, many are misunderstood. We are constantly accused of having no confidence in our policy and of not pursuing it with consistency.

I think that we should be very careful about taking any steps that may seem to give ground for these charges. Events seem on the whole (in spite of the peculiarly unpropitious circumstances arising out of famine and the enormous demand for rupees that we have lately experienced) to be justifying as well as favouring our big currency venture of last year. I think that our motto should be *Festina lente*

8th July 1900

(Signed) CURZON OF KEDLESTON

### III

#### SECOND MINUTE BY THE HONOURABLE SIR EDWARD LAW

It has been suggested that it might prove a convenience if I were to endeavour to give the explanations asked for in His Excellency's minute dated 8th July 1900. I am very happy to accept this suggestion.

2 In His Excellency's minute, paragraph 1 (1), the view that we pay more for our investments than we receive from our borrowings appears to be fully accepted as exact. I think, however, that with regard to this statement, which may be in the main correct, an important qualification must be borne in mind. The general truth of the proposition, as far as my proposals are concerned, depends on the assumption that the price of future investments made in connection with the proposed Gold Exchange Fund will always be higher than the price which at about the same time we shall be obliged to pay for our loans. I should hope that this assumption will by no means always prove correct, and further, even when the assumed loss is suffered, the difference at approximately corresponding dates, between the prices of investments and new loans should surely be so trifling that it need not be considered as a serious objection.

3 His Excellency in concluding paragraph 1 (1) asks if it will not be necessary to borrow the million which I speak of as forming part of the initial capital in the proposed Gold Exchange Fund. It was not my intention to propose borrowing for this purpose. In paragraph 18 of my former minute I spoke of the new gold fund as to be opened with a combined cash and creditor balance of 1½ millions sterling, my idea being that we might await the gradual reimbursement of the famine loans and advances to Native States to change the creditor portion of the balance into much to be desired cash.

4 In paragraph 1 (2) the presumption that the accumulation of interest on gold investments, forming part of the Currency Reserve, would involve a subtraction from our ordinary resources, is correct.

5 In paragraph 2 His Excellency asks “if we have just decided that “7,000,000l ought to be kept in gold in the Currency Reserve, why propose “to reduce it simultaneously to 2,000,000l.?”

6 I have apparently failed to make myself sufficiently clear on this point. I do not hold we ought to keep 7,000,000l in the Currency Reserve, I have indicated 7,000,000l. as the maximum sum which the general purposes of

the Reserve would permit us to hold with safety. Further in paragraph 20 of my minute of 28th June, I have pointed out that gold securities may for practical purposes be considered as the equivalent of actual gold, since we have only to sell the securities, by telegraph if necessary, to realise the equivalent in actual metal.

7 In paragraph 3 His Excellency asks if our currency investment can be increased without legislation?

It cannot, but I am prepared to recommend legislation for this purpose, and independently of the particular question we are now treating, I hold that the experience of this year has proved that we can lock up a proportion of our Currency Reserve equal to the sum of the present investment of 10 crores together with 7,000,000*l* in gold. We are at the present moment holding considerably more than this combined sum in a form which does not permit of its immediate conversion into rupees.

8 His Excellency in paragraph 3 recalls that in the despatch of 18th January 1900, it was contemplated to advance gradually to a situation in which one-half of the Paper Currency Reserve should be in coin and one-half in securities. It is true that I proposed to go beyond this proportion, but not so very much. The recent average circulation of notes has been approximately 30 crores (I have elsewhere stated that I have considerable hopes of materially increasing this figure) and the half of this sum for investment would be 15 crores. I propose to invest 17½ crores, but I have given what I believe to be sufficient reasons for considering this addition justified by recent experience, and, in any case, I propose to make the investment gradually.

9 In the same paragraph his Excellency asks if gradual processes will not in time give the desired sum in investments.

Undoubtedly they would, if no mishap occurred during the slow process of increase, but the quicker we can secure our accumulation of gold and gold securities the quicker will our position be assured, and I have already given my reasons for apprehending no danger from the acceleration of the process by the measures I have proposed.

10 In paragraph 4 His Excellency observes that I have given no reason for the proposal to gradually convert the present investments in rupee paper into Indian Government gold securities.

I regret the omission, to make things clear, the reason should have been given in my minute under discussion, but I intended to return to the subject when dealing (elsewhere) with the general questions connected with the circulation of notes, because I consider my proposal to be one of considerable importance as regards the general purposes of the Currency Reserve, and I am anxious to press it from that point of view and independently of any proposals connected with our exchange policy.

11 When the system of investing a certain portion of the Currency Reserve was inaugurated, exchange difficulties had not made themselves appreciably felt, and since the investment was intended to be convertible into rupees, in case of necessity, it was natural that it should be made in rupee paper. To-day the situation is different, the market value and ready convertibility of rupee paper has been prejudicially influenced by exchange difficulties, there is practically no market out of India for rupee paper, and in India the market is so small and so easily depressed that were we suddenly called upon to realise our existing investments, we should, I fear, most seriously depress their value and create something like a panic.

12 I may point out that investments in gold securities cannot be prejudicially influenced by exchange fluctuations. When it is desired to realise gold securities they can, in the large market which they command, be immediately sold for gold, which can be used if that metal is required, and if rupees should be required the gold realised can purchase silver bullion to be coined with profit into rupees.

13 For these reasons, which I am confident would be perfectly accepted by the financial world, I strongly desire, as a measure of safety, to see our rupee investments converted into gold securities as rapidly as the exercise

of most necessary caution not to unduly disturb the market for rupee paper, may permit. This proposal I should wish to put forward on its own merits and quite independently of any indirect connection with the exchange question.

14 I trust that the consideration of these explanations will make it clear that I am not proposing any new departure, but solely seeking to consolidate our position on the lines of policy already adopted, and to accelerate the accumulation of the stock of gold on which the assured success of that policy mainly depends.

15 It is not sufficient to adopt a policy in theory. The practical working of the adopted policy must be carefully watched, and whilst holding fast to the general principles we have accepted, we must be ever ready to adopt such minor measures or modifications in detail of practice as experience may show to be necessary to assure the success of the policy we have accepted.

27th July 1900.

(Signed) E. F. G. LAW

#### IV

##### THIRD MINUTE BY THE HONOURABLE SIR EDWARD LAW.

It has been suggested that I should endeavour to summarise, with such explanations as may seem necessary, the conclusions arrived at on the questions treated in this file as a result of their discussion in the Executive Council.

In the first place, the question was discussed as to what should be understood and accepted as regards the proposals in paragraphs 21, 22 and 23 of my notes for the gradual investment in gold securities of sums belonging to the Currency Reserve and now held in rupee paper or in gold.

As regards the conversion into Indian Government Sterling Bonds of the 10 crores now held in rupee paper, I have pointed out, and it was accepted, that this conversion must be very gradual and would take a long time to effect. It is evident that if the issue of a loan of three crores in rupee paper causes, as was shown by the experience of the recent loan, a strain on the resources of the limited market for this class of security, the said market would be easily glutted by the attempted sale of any large quantity of these securities and the result would be highly prejudicial to our general financial interests, both as regards the depreciation of our stock and as regards compromising the success of further issues of similar securities. If general conditions were to remain as at present, I do not think that it would be possible, with due regard to these interests, to sell more than one crore of rupee paper in a year, so that it might take 10 years to complete the proposed conversion, but we may fairly hope that it will not be long before the general popularity of this class of security may, by judicious measures, be sufficiently improved to offer a stronger market, and consequent increased facility in advantageously disposing of stock.

On this question I may perhaps point out that the greater the recognised difficulty in realising our present investment, the less suitable must it be recognised to be for the particular purpose for which it is held, namely, the guaranteeing of our issue of notes.

As regards the investment of a portion of the gold now held in the Currency Reserve, in British Government Funds, the process of investment must also be comparatively slow, or the investment would be made under disadvantageous conditions, in consequence of the rapid rise in price which would result from the hurried purchase of large blocks of stock.

On the further question of the total proportion of the Currency Reserve Funds which might be prudently invested, the result of discussion showed a general consensus of opinion that it would not be advisable to propose, for the present, the investment of a larger proportion than 50 per cent for though we have been struggling without accident, since the end of April, with a proportion of rupees in our Currency Reserve varying from Rs. 3,66,18,000 or 12.9 per cent minimum to Rs. 7,04,28,000 or 23.0 per cent maximum, the formal decision to limit our cash holdings to even one-third of our liabilities might appear disquieting to the commercial community.

I may here mention that on the last occasion when the mercantile and banking community was consulted as to the increase of the investment of Currency Reserve Funds, Lord Elgin's Government, in their despatch of 2nd June 1896, summed up the opinions received as follows "We consulted the Presidency Banks and the Chambers of Commerce in this country on the subject. The replies show that none of these bodies calls in question the proposal to make this increase in the investment on the ground that it would diminish the security for the convertibility of the currency note, the mercantile and banking opinion is practically unanimous that in increasing the investment by two crores there is no risk whatever so far as the convertibility of the note is concerned."

The despatch continued with further observations which, I think, I should also quote as being very pertinent to the present proposals and as perfectly expressing my own views on an important side of the general question. The Government of India wrote "We believe that strong objection would be taken to our manipulating the currency reserve with the intention of producing any effect upon the exchange value of the rupee. For the same reason we are inclined to doubt whether, when a measure affecting the currency reserve is proposed from the point of view of paper currency reserve, pure and simple, we ought to allow ourselves to be influenced by the possible effect which a measure, desirable from a Currency Reserve point of view, may have upon the exchange value of the rupee."

The general question of the advisability of legislation affecting our exchange policy was discussed in Council, and the view was, I think, unanimously accepted that such legislation should, if possible, be avoided. I venture, however, to point out that though legislation would be necessary for increasing our Currency Reserve Investments, such legislation might, and I think should, be undertaken quite independently of any question which we may have to consider in connection with our exchange policy.

I hold very strongly to the view expressed in the passages which I have quoted above, and though I must accept that, as a last resource, we must, in case of exchange difficulties, make the fullest use of whatever gold or gold securities we may hold in the Currency Reserve, this is a last resource, and, when the Gold Exchange Fund which I have proposed is established, it is on the resources of that fund that we must primarily and publicly rely to meet ordinary requirements for exchange purposes.

(Signed) E FG LAW

23rd August 1900

Despatch from the SECRETARY OF STATE to the GOVERNMENT OF INDIA,  
No 232, dated 13th December 1900

MY LORD,

I HAVE considered in Council your Excellency's letter dated the 6th September, No 302, on the subject of the formation of a special Gold Reserve, on a basis sufficient to ensure the success of the policy adopted by the Government of India, with the view of placing its currency system on the gold standard.

2 I must begin by expressing my high appreciation of the ability with which Sir Edward Law has treated this important subject, and of the care shown in dealing with various questions of detail connected with it.

3 Of the advantage of maintaining a special Gold Reserve I am fully convinced, and, in order to mark the primary object of its formation, it appears to me that the title to be assigned to it should be the Gold Standard Reserve.

4 The first proposal made by Sir Edward Law, for the purpose of constituting such a Reserve, which receives the unanimous support of your Government, is that the profits on the coinage of rupees should not be credited to the Revenue, or held as a portion of the ordinary balance of the Government of India, but should be kept in gold (an expression in which he appears to include securities saleable for gold) as a special reserve entirely apart from the Paper Currency Reserve and the ordinary Treasury Balances.

5 This proposal is in harmony with the 60th paragraph of the Report of the Indian Currency Committee, and I fully concur in the principle which it enunciates. As a matter of account, however, it appears to me that it will be desirable that the profit made by the coinage of rupees should, as in the case of all similar operations, continue to be shown as Revenue under the head of Mint, while on the side of Expenditure will be exhibited the charges in connection with the coinage, and also the payment of the net profit to the Gold Standard Reserve. The latter sum will thus be credited below the line under the head of Deposits or Remittances, and, when the remittance to England is effected, it will be debited under the corresponding head. In a subsidiary account will be shown the complete transactions in connection with that Reserve.

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

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

8 While, however, I am in favour of the institution of the Gold Standard Reserve, with effect from the beginning of the current year, I do not overlook the difficulty mentioned in the 11th paragraph of your letter, arising from the circumstance that the receipts from the coinage of rupees in 1900-01, having come into your balances, have already been applied in the relief of famine, or in loans to Native States, and that they could not be at once invested for the Gold Standard Reserve without resort to further borrowing. I therefore authorise you to remit the net profit which you have made this year as you may be able to provide the money out of surplus receipts in this and subsequent years. This remittance may be effected either in the shape of gold, or, when there is a sufficient demand for bills on India, by agreeing to meet them in excess of the amount required for the other Home disbursements.

9 I trust, however, that this special arrangement will not be needed for future years, and that from the 1st April 1901 the regular appropriation of the funds applicable to the Gold Standard Reserve will be rigidly maintained.

10 The second proposal, in which also your Government concurs, is to add to the special reserve the annual interest on the investment of the Paper Currency Reserve, amounting at present to Rs 34,70,000. I must point out, however, that the two reserves will be quite distinct, with different objects, and there appears to me to be no special reason why the interest on the securities of the one reserve should be assigned to the transactions of the other. I am of opinion, therefore, that, for the present, it will be better to adhere to the existing system.

11 In the third recommendation, namely, to use in future for the purchase of silver for coinage into rupees any excess over 7,000,000*l* in the stock of gold in the Paper Currency Department, you also fully concur. The circumstances of the past year have, however, been exceptional in various ways, and it does not appear practicable to base on them any final decision as to the amount of gold which it is prudent to hold in the Currency Reserve, but I agree that that amount may for the present be taken as the maximum which it is desirable to retain, though no pledge should be given to the public on this point. Any excess over 7,000,000*l* would, in ordinary course, be spent in the purchase of silver for coinage into rupees, and it would probably be desirable that, even if there were no such excess, the Secretary of State should hold in London a portion of the gold, in order that it may be used in the purchase of silver, when the latter can be obtained at a moderate price.

12 The other proposals made by Sir Edward Law refer to the investment of the Reserves No 4, suggesting the gradual transfer of the Rupee Securities of the Paper Currency Department into India Sterling Securities,

is recommended by your Government if it can be effected without fresh legislation, but I am advised that this is not the case. No 5, to increase the amount of the Paper Currency Investment, to make the additional investment in British Consols, and to obtain the funds by reducing the stock of gold in the Currency Reserve, is, as you observe, open to the objection that fresh legislation could not be avoided. Even, however, apart from this consideration, I feel that there are serious reasons against the adoption of the measures proposed, and I am unable to sanction them.

13 In the 15th paragraph of your letter you pressed on me the necessity for a further purchase of silver, and you have by telegraph added other demands.

The following is a statement of the amount bought during this calendar year.—

	Amount	Average Price per oz including all Charges
	£	d
1st instalment, 6th to 24th March	500,000	27 99
2nd instalment, 23rd April to 4th May	500,000	27 77
3rd instalment, 14th to 28th May	500,000	27 84
4th instalment, 12th to 22nd June	400,000	28 02
5th instalment, 5th to 17th September	500,000	29 19
6th instalment, 27th September to 8th October	500,000	29 77
7th instalment, 19th to 26th October	500,000	
8th instalment, 29th November to	500,000	
	3,900,000	

This is in addition to the amount obtained by your Government in India so that altogether the number of rupees by which the circulation will have been increased must considerably exceed nine crores. I have in each instance acted on your application, feeling assured that your Excellency would not desire to enhance the volume of rupees in circulation beyond what seemed absolutely necessary.

I have, &c,  
(Signed) GEORGE HAMILTON.

Telegram from VICEROY, dated 26th March 1901

In view of present low price of Consols, we suggest your consideration of advisability of investing, on behalf of Gold Reserve Fund, say half a million sterling. If you make the investment we can ship another half a million sterling at once.

SECRETARY OF STATE to VICEROY, dated 29th March 1901

Your telegram 26th. Send gold as proposed. Mode of investment under consideration.

Telegram from VICEROY, dated 10th April 1901

Your telegram of 29th March. Japanese yens, weighing 131,379 ounces, actual value 502,224l, will be shipped by "Borneo," leaving Calcutta 16th April.

Telegram from VICEROY, dated 10th January 1902

We have now nearly two and a half millions gold in Gold Reserve Fund. We propose embarkation of half a million for investment immediately. We hope that you will be able to arrange for remittance of remaining two millions by free sale of Consols in next three months, and so save cost of specie remittance.

Telegram from VICEROY, dated 9th July 1903.

Propose sending home 260,000l sterling, partly bazar gold, balance sovereigns, for investment on account of gold reserve, unless we hear to the contrary in a week or ten days. We beg to recommend investment in sterling security other than Consols.

Letter from the GOVERNMENT of INDIA to the SECRETARY OF STATE,  
No 229, dated 30th July 1903

MY LORD,

In the Viceroy's telegram, No 4147 A of the 9th instant, in which we proposed sending home 260,000*l* in gold for investment on account of the Gold Reserve Fund, we recommended that the investment should be made in some sterling security other than Consols. We have now the honour to explain our reasons for this recommendation.

2 We observe from paragraph 7 of your Despatch No 232 (Financial), dated 13th December 1900, that your Lordship did not think it necessary to specify precisely in what gold securities the reserve should be invested, and that you left it to the discretion of the Secretary of State to vary the investment from time to time. We understand, therefore, that there is no strong objection to our proposal, and we consider that it would be advantageous in several ways.

3 In the first place the investment of a part of the fund in securities, such as those of the London County Council or our own sterling stock, carrying a higher rate of interest than Consols, would add materially to the receipts of the fund, and accelerate its growth. The sum at present standing at the credit of the fund is not in our opinion sufficient to meet all possible contingencies, and we should be glad to take any legitimate means of raising it to a higher figure. We regard investment in 3 per cent securities of good standing as a proper means to this end.

4 There are many local securities in the United Kingdom, as well as our own stock, which appear to be desirable investments, and it would, we think, be an advantage to possess some of these instead of keeping all our reserve in one class of security. In the event of our having to realise a portion of the fund, we should probably get better prices if we had a choice of stock to put on the market, and the simultaneous sale of securities of different classes would not have the same prejudicial effect in depreciating the value of our investments as if they were all of one class.

5 Should your Lordship think it advisable to purchase India stock on account of the fund, the investment would have the further advantage of relieving the market for this stock, and might have the effect of strengthening our credit in London. An objection might possibly be raised to the effect that, in the event of our being obliged to draw on the Gold Reserve Fund to meet a fall in exchange, the value of Indian securities would be depreciated so that it would be inadvisable to put them on the market. We do not, however, regard it as at all certain that the latter result would follow. Our credit in the London market is now more dependent on the supply of capital loanable at low rates of interest in that market than on the exchange relations between India and the United Kingdom, and a temporary contraction of our exports to a point affecting exchange would not necessarily reflect on our credit as a borrower. We do not, therefore, apprehend that the investment of a portion of the Gold Reserve Fund in our own securities would be unsafe or likely to lead to serious loss on realisation.

6 The above are the grounds on which our recent recommendation was based. We shall be glad if your Lordship will take them into consideration when making future investments on account of the Gold Reserve Fund.

We have, &c,  
(Signed) CURZON  
KITCHENER  
T. RALEIGH  
E. F. G. LAW.  
E. R. ELLES.  
A. T. ARUNDEL.  
DENZIL IBBETSON,

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Despatch from the SECRETARY OF STATE to the GOVERNMENT OF INDIA,  
No 159, dated 11th September 1903

MY LORD,

I HAVE considered in Council your Excellency's Financial Letter, No. 229, dated 30th July 1903, in which you explain your reasons for recommending in your telegram of 9th July that the sum of 260,000*l* which was recently sent by you to this country for investment on account of the Gold Reserve Fund should be invested in some sterling security other than Consols

2 That recommendation, as you have been informed in my telegram of the 16th July, has been approved by me, and sums of 175,000*l* and 81,988*l* have been invested in National War Loan Stock, at prices of 97½ and 97¾ respectively

3 You now submit for my consideration the further question whether India sterling stock should be included among the securities in which investments may properly be made on account of the Gold Reserve Fund

4 You recommend an extension of the field of investment on the grounds that (1) it is inexpedient to keep the whole of the reserve in one class of security, and (2) that by investing the Fund in securities carrying a higher rate of interest than Consols its growth may be accelerated, an object which it is desirable to attain by any legitimate means I assent to both these propositions In favour of purchasing India stock in particular, you urge that such an investment would have the further advantage of relieving the market for this stock, and might have the effect of strengthening your credit in London It may be the case, as you proceed to argue, though this a controvertible point, that a fall of exchange such as would necessitate drawing upon the Gold Reserve Fund would not have a direct effect in depressing the price of India stock, at the very time when the occasion arose for selling it, but it is at least possible that such a fall of exchange would indirectly have this effect, by giving rise in the market to anticipations, perhaps unwarranted or exaggerated ones, of probable sales of India stock held on account of the Gold Reserve Such a result would hardly be beneficial to Indian credit It should, moreover, not be forgotten that if some political complication occurred which simultaneously depreciated the credit of the Government of India, and the exchange value of the rupee, the sale of India stock could under such circumstances be only effected at a loss both of credit and price

5 A Reserve Fund such as that now created should, if possible, be of such a character as to permit of its realisation, without substantial loss or detriment to Indian credit, in any emergency, either monetary or political

6 The balance of advantage undoubtedly seems to lie in favour of confining investments on account of the Gold Reserve Fund to securities more unquestionably dissociated from the influences of fluctuations in exchange than India stocks can be said to be

7 For the present I have given directions for the dividends on the Gold Reserve Fund to be invested, as they are received, in the National War Loan, which yields, at its current price, allowing for redemption at par in 1910, a return scarcely less than that obtainable from India 3 per Cent Stock Whenever it becomes desirable, from any cause, to select another security for investment on account of the Fund, due regard will be had to the considerations set forth in paragraphs 3 and 4 of your letter

I have, &c,  
(Signed) GEORGE HAMILTON

Letter from GOVERNMENT OF INDIA to the SECRETARY OF STATE, No 121,  
dated 28th April 1904

SIR,

WE have for some time past been considering the best means of guarding ourselves against a sudden depletion in the rupee portion of our Currency Reserve, such as occurred in the year 1900-1, and as appeared

possible, though not probable, in November last. The suddenness and the extent of the demands which may be made upon the rupee reserve will be evident from the statement which is appended to this letter, showing for each month the gain or loss in the stock of rupees held in the Currency Reserve during the last four years, such gain or loss being calculated without reference to the additions which have from time to time been made by new coinage.

2 Experience has shown that we cannot obtain silver in India in sufficient quantities to meet sudden demands for coinage, and the process of sending home gold for the purchase of silver and importing the latter for coinage entails a delay of several weeks before coining operations can be begun. Such delay might be of serious consequence in the event of a sudden and strong demand on our rupee reserves, and we feel it incumbent on us to take every precaution against the risk of being unable to fulfil our rupee obligations, and the dislocation of the export trade of India which would follow from a shortage of silver coin.

3 We therefore propose to accumulate gradually a reserve of silver bullion to be held in the mints as a portion of the Currency Reserve, which will enable us to begin coining as soon as the demand for rupees makes itself felt. A stock of silver, melted, alligated, assayed, and rolled, ready for immediate coinage will form a valuable reserve in times of sudden pressure, and its existence will inspire confidence in the mercantile community in India, who have in the last few months shown themselves peculiarly sensitive to the apprehension lest our rupee reserves should not always be maintained at a safe level. If the four processes mentioned above, which are those occupying the longest time in the operation of coining, are then completed in advance, it will be possible for the mints to begin paying over newly coined rupees to the Treasury within four days of receiving the order to start work.

4 The amount of bullion which we contemplate holding permanently is three crores' worth, but we do not think it necessary to purchase this amount at once, we would leave it to you to obtain it gradually and cheaply as the state of the market permits. We think that it would be well, however, to buy £1,000,000 worth of silver as soon as the market offers favourable conditions. Part of this amount may be required for coinage, and it is possible that we may shortly have to ask you by telegram to make a further purchase for this purpose. In any case we shall feel safer when this stock is obtained and we have a nucleus for our proposed reserve.

5 It is our intention that this stock shall be kept quite apart from the ordinary silver bullion in the mints and in separate vaults, and that it shall not be made available for ordinary requirements, for coinage, but only in case of emergency. Instructions will be issued that no part of it shall ever be withdrawn for purposes of coinage without the previous express orders of Government communicated through the Comptroller-General.

6 We may add that we have not overlooked the legal aspect of the proposal. Section 13 of the Indian Paper Currency Act, 1882 (XX of 1882, as amended by VIII of 1900), requires us to give directions for the coinage of silver purchased from the funds of the Currency Reserve *as soon as convenient*, but the words in italics are sufficiently wide to cover the course which we contemplate. We hope, however, to make the point clear in a general revision and consolidation of the Act, which will shortly be taken up.

We have, &c,  
 (Signed) CURZON  
 KITCHENER  
 E. F. G. LAW  
 E. R. ELLES  
 A. T. ARUNDEL  
 DENZIL IBBETSON.  
 H. ERLE RICHARDS.

\* Silver was bought in accordance with this despatch to provide for a bullion reserve

Statement showing the gain or loss in the stock of rupees held in the Currency Reserve during the last four years, without reference to the additions made by new coinage

	1900-01	1901-02	1902-03	1903-04	Average
	Gain + Loss -	Gain + Loss -	Gain + Loss -	Gain + Loss -	Gain + Loss -
April - - -	-2,21,73	-1,77,62	-85,07	-2,14,76	-1,74,79
May - - -	+10,37	+17,84	+45,50	-18,26	+13,87
June - - -	+1,00,13	+2,59,98	+1,57,57	+91,55	+1,52,31
July - - -	-68,40	+51,30	+91,34	+21,62	+23,97
August - - -	-2,06,69	-80,48	-53,18	-1,15,00	-1,13,81
September - - -	-1,94,51	-77,73	-1,09,34	-2,25,77	-1,51,81
October - - -	-1,90,43	+76,55	-47,60	+12,30	-37,30
November - - -	-1,03,08	+2,93	-88,25	-1,97,82	-96,56
December - - -	-1,76,25	-1,95,18	-2,14,29	-4,05,23	-2,47,74
January - - -	-2,04,44	-83,60	-3,77,17	-2,12,86	-2,12,52
February - - -	-2,04,06	-1,10,69	-1,93,86	-2,02,10	-1,77,68
March - - -	+1,62,98	+34,51	-3,14	-	+64,78
Total gain or loss - - -	-12,96,11	-2,82,19	-8,77,49	-14,66,33	-9,80,53
Add on account of coinage of Native States in 1900-01, and withdrawals of old issues	+3,73,69	+1,16,58	+8,07,25	+4,52,10	+4,37,40
Net gain or loss - - -	-9,22,42	-1,65,61	-70,24	-10,14,23	-5,43,13

Despatch from the SECRETARY OF STATE to the GOVERNMENT OF INDIA,  
No 41 Financial, dated 7th April 1905

My LORD,

In my telegram dated 9th March last, while accepting your proposal that the remittance of two crores of rupees to this country which will be required for the investment on account of the Paper Currency Reserve shall be made by means of Council drawings, I added that I should address you further on the subject of remittances of gold

2 The question of the amount of gold that can be conveniently held in the Paper Currency Reserve in India was discussed by your Excellency in your letters of 14th December 1899 (No 421) and 6th September 1900 (No 302) In the latter communication it was suggested that 7,000,000*l* should be regarded as the maximum, and this proposal was provisionally accepted in Lord George Hamilton's Despatch No 232, of 13th December 1900 The question was again considered by you last year in connection with your proposal to increase the amount invested on behalf of the Paper Currency Reserve; and in your letter of 18th August last, No 295, you stated that in your opinion a stock of gold of the value of 9½ crores (6,167,000*l*) in the reserve would be ample and that a larger proportion is not at present required in India You also stated that you have found by experience that at the beginning of the busy season the proportion of silver coin in the currency reserve should be approximately one-third of the total note circulation As the gold held in the reserve has not fallen below 9,000,000*l* during the last two years, and has during the whole period since March 1904 exceeded 10,000,000*l*, I assumed, when agreeing that the invested portion of the reserve shall be increased by the substitution of sterling securities for two crores of the metallic portion, that it was your intention to remit gold to England for the purchase of the securities In deference to the representations made in your telegram of 8th March 1905, I have agreed that the remittance shall be made by means of Council Bills But I should be glad if you would consider whether the amount of gold held in India should not nevertheless be reduced

3 According to the statement for the 9th March 1905, which is the latest before me, the composition of the Currency Reserve on that date was as follows —

	Crores
Securities - - -	10
Silver coin - - -	9 07
Silver bullion - - -	1 88
Gold - - -	16 47
Total - - -	37 42

The amount of silver coin was considerably below the proportion of one-third mentioned above, and when an investment of two crores is made in England, and the metallic reserve in India is reduced, the reduction will presumably be effected wholly or in part by the transfer of rupees to the ordinary treasuries

4 In view of these figures it appears to me that there would be some advantage in remitting gold to England early in the present financial year

Having regard to the state of your balances as described in your telegram of 8th March, it would perhaps be the more convenient course that gold so remitted should in the first instance be held as a part of the Paper Currency Reserve at the Bank of England. It could be used, if a favourable opportunity occurs in the near future, for the purchase of silver in anticipation of future requirements, or, if you are unwilling at present to anticipate requirements, it could be held at the Bank so as to be immediately available for the purchase of silver whenever the need for additional coinage may arise. It is also to be remembered that the possession of a stock of gold in England, held as a portion of the Paper Currency Reserve, but capable of being transferred to the ordinary balances of the Secretary of State in Council, against a corresponding transfer of rupees from your balances to the Currency Reserve in India, affords a method (which might in certain circumstances be very useful) of speedily replenishing the balances of the Secretary of State in Council

5. I shall be glad to receive an expression of your views on the points discussed in this Despatch

I have, &c,  
(Signed) Sr JOHN BRODRICK

Letter from the GOVERNMENT of INDIA to the SECRETARY OF STATE,  
No 236, dated 29th June 1905.

SIR,

We have the honour to refer to your Financial Despatch No 41, dated the 7th April 1905, on the subject of the amount of gold held in the Paper Currency Reserve. You cite various opinions which the Government of India have expressed at different times as to the amounts of gold and silver respectively which should be held in the Reserve, and you ask us to consider whether in view of the large stock of gold now held in India, a portion of it should not be remitted to England. You also suggest that it might be convenient to hold the gold so remitted in the first instance as a part of the Paper Currency Reserve at the Bank of England, and you point out certain advantages which would attach to the possession of such a stock of gold in England.

2 In the previous discussions to which you refer concerning the amount of gold that can conveniently be held in the Reserve, our views were influenced by the sudden demands which had arisen for the provision of rupees in India, and by anxiety lest the presence of a large stock of gold should hamper us in meeting those demands. Our position in this respect has been greatly strengthened by the large increase that has taken place in

the note circulation in the last few years, and by the formation of a special ingot reserve of three crores of tolas of silver, as proposed in our Despatch No 121, dated 28th April 1904. The position will, we think, be made still more secure if you accept the proposal put forward in our Despatch No 143 of the 27th of April last, for the annual purchase of silver in anticipation of actual requirements.

3 The object of this proposal was to secure a sufficient supply of rupees to meet all urgent demands, and so long as this object is effected we see no cause for anxiety in the accumulation of a large stock of gold. On the contrary we consider that the balance of the uninvested portion of the Reserve which is not likely to be required for circulation as money ought to be held in gold rather than in silver, and that the possession of a large stock of the yellow metal will strengthen our credit and contribute to the stability of exchange. Subject, therefore, to the provision of sufficient rupees and reserves of silver, we would allow our stock of gold to grow indefinitely with the expansion of the note circulation until such time as it may be deemed expedient to make a further addition to the invested portion of the Reserve.

4 We do not, however, consider it in any way necessary that the whole of the gold should be held in India. As pointed out in the second paragraph of your Despatch under reply we expressed the opinion in August last that a stock of 9½ crores in the Reserve furnishes, under present circumstances an ample maximum for Indian purposes, and one of the objects of the recent revision of the Paper Currency Act was to facilitate the transfer of the gold portion of the Reserve between India and England. We would in this connection invite attention to the remarks made by our Honourable Financial Colleague when moving on the 11th of March last that the Report of the Select Committee on the amending Bill should be taken into consideration. The Honourable Mr Baker then observed that "so far as gold is concerned, the coin held in London is actually one stage nearer the point at which it becomes effective for securing the encashment of notes than when it is in India."

5 We are accordingly disposed to welcome your suggestion that a portion of our stock of gold should be remitted to London and held as a part of the Paper Currency Reserve at the Bank of England. To the advantages which you have enumerated as attending this measure we would add that it will enable you to make purchases of silver quietly without giving the forewarning to the market which is entailed by the present system of making separate remittances for each purchase.

6 We therefore propose to send 5,000,000*l* (five million pounds) in gold to London to be held by you as a part of the Currency Reserve. When you draw on this fund for the purpose of purchasing silver, we would ask you to replenish it from time to time by the sale of Council Bills, at your convenience, and to inform us on each occasion of any intended operation on the fund, so that we can adapt our arrangements accordingly. In the event of the demand for Council Bills being slack at any time, you would be able after warning us to replenish the Reserve in India, to utilise your stock of currency gold for Treasury payments. If this proposal meets with your approval we should be glad to be informed as soon as possible in order that early arrangements may be made for shipping the gold.

7 With reference to the remarks in paragraph 3 of your Despatch regarding the amount of silver coin held in the Paper Currency Reserve in March last, we would point out that the standard of one-third of the total note circulation referred to in our Despatch of the 18th of August 1904 was suggested as sufficient at the opening of the busy season, and that that season was drawing to its close on the 9th of March. We take this opportunity of explaining that the standard which we suggested last year on Sir Edward Law's advice was a rough estimate only, and that we do not at present consider that we have sufficient data or experience for laying down any arithmetical criterion. We attach more importance to the proposals stated in our Despatch of the 27th of April last for anticipating requirements than to the maintenance of any fixed proportion of rupees to the note circulation, and in any

event, we do not consider that the gross circulation, which includes notes held in the Reserve Treasuries, could in any circumstances be treated as the basis of such a criterion

We have, &c  
(Signed) CURZON  
KITCHENER  
E R ELLES.  
A T ARUNDEL  
H E RICHARDS  
J P HEWETT.  
E N BAKER.  
C. L. TUPPER.

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Despatch from SECRETARY OF STATE to GOVERNMENT OF INDIA, No. 91,  
Financial, dated 11th August 1905.

MY LORD,

In your letter of the 29th of June, No 236, you accept the suggestion made in my Despatch of 7th April, No 41, that a portion of your stock of gold should be sent to this country to be held as a part of the Paper Currency Reserve, and you propose to make early arrangements for the shipment of 5,000,000*l*. I understand that you desire that the 1,000,000*l* shipped on the 8th of July, as reported in your telegram of 6th July, may be regarded as a portion of this 5,000,000*l*

2 I approve the proposal that a further 4,000,000*l* shall be sent. It should be consigned in instalments of not more than 1,000,000*l*, and you should inform me by telegraph when each consignment is about to be made

3 When the gold held in England is drawn upon for the purchase of silver it is possible that in some cases the most convenient arrangement for keeping the total Currency Reserve up to the required amount will be that contemplated in sections 17 and 19 of Act III of 1905, viz, to treat the silver purchased as a portion of the reserve. The stock of gold in England can subsequently be replenished, as you propose, from the proceeds of Council Bills (if the state of the Home Treasury balances admits of this) so as to release rupees from the Currency Reserve in India. This procedure would obviate the necessity for making transfers in India from the Treasury to the Paper Currency Department at the time of the purchase of the silver, which I understand to be the course suggested in the sixth paragraph of your letter

4 For the present, however, the silver that is being purchased in accordance with the requests contained in your telegram of the 5th April, your letter of the 27th April, and your telegram of 30th June, is being paid for from the balances of the Home Treasury, so that the whole 5,000,000*l* of gold will be held from the time of its arrival as a part of the Paper Currency Reserve

5. I forward a copy of a letter to the Bank of England requesting them to take the necessary measures

6 I also forward a copy of a note by the Deputy Accountant-General at this Office, from which it will be seen that it is desirable that you should announce (in the manner that appears to you most convenient) that the shipments are to be made on behalf of the Paper Currency Reserve, and not for the purpose of replenishing the balances of the Secretary of State for India in Council

I have, &c.,  
(Signed) ST JOHN BRODRICK.

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## Enclosure No. 1.

INDIA OFFICE TO BANK OF ENGLAND.

F. 5156  
GENTLEMEN,India Office,  
28th July 1905

I AM directed to inform you that the Government of India intend to consign to this country during the present year 4,000,000*l* in gold in addition to the 1,000,000*l*. referred to in the correspondence ending with Mr Nairne's letter of the 7th July

The whole 5,000,000*l* will for the present be treated under the arrangements contemplated in the Indian Paper Currency Act, 1905 (of which a copy is enclosed for your information) as being a part of the reserve to secure the payment of currency notes issued in India

I am to inquire whether you will be so good as to hold the gold on behalf of the Secretary of State in Council on a separate account distinct from his cash and drawing accounts

Portions of the amount so held may from time to time be used for the purchase of silver or for other purposes, and in this event a transfer to the Secretary of State's cash account will be required, and the necessary instructions will be given by this Office

The Governor and Company of the  
Bank of England

I have, &c  
A GODLEY

## Enclosure No 2

Note by the DEPUTY ACCOUNTANT-GENERAL, India Office, dated  
22nd July 1905

I have to suggest, for consideration, that in view of the magnitude of the operation it might be desirable to take some steps to acquaint the market that the gold to be shipped will not be available for the purposes of loans from the Secretary of State's balances. The Broker has recently mentioned to me on several occasions that the publication by the newspapers of the intended shipment of gold, which is usually announced by the news agencies directly the freight is arranged in India, has a distinct effect on the rates he is able to obtain for our loans. The firms on the borrowing list occasionally quote the information to him, and either decline to renew in the expectation of cheaper money and supply themselves instead from other sources with weekly or other short term loans, or else make the news the pretext for offering a lower rate of interest than would otherwise be obtained. In this case the shipments of gold will be large, and will perhaps spread over some time. I see from to-day's "Times" that a rumour as to a further shipment is already afloat

H W BADOCK

Telegram from VICEROY, dated 15th December 1905

Your telegram of 14th instant transfers to Currency Reserve. We regard it as advisable to transfer to our Treasury Balances a further sum of Rs 75,00,000, and shall be glad, therefore, if 500,000*l* may be transferred to the Currency Reserve (Gold) on the 16th instant. Please also expedite as far as you can the shipment of silver that has been ordered

Telegram from SECRETARY OF STATE TO VICEROY, Financial Department,  
dated 16th December 1905

Transfer of gold to Currency Reserve. I am willing to make the transfer as requested in your telegram of yesterday at once, if this is the only possible course. But as it is undesirable just now to withdraw gold from the Bank of England Reserves, it would be better to postpone or, if possible, to avoid such transfer. Accordingly I would ask you to consider whether by treating

the gold in your Treasury Balances and the balance of the silver bullion received by you, or in transit to India, as belonging to the Currency Reserve, we might not avoid the necessity of immediately transferring gold to the Currency Reserve in England, or at any rate make the amount to be transferred smaller

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Telegram from VICEROY, dated 19th December 1905

Currency transfer Your telegram 16th December We must, in spite of the possibility of inconvenience to the Bank of England, earnestly press our request that you will transfer to your Currency Balance half-a-million of gold from your Treasury If this is not done, your large drawings of telegraphic transfers will cause us serious embarrassment We are coming as fast as possible the entire special ingot reserve, we have already earmarked for Currency most of the silver bullion en route; we have made as much use as possible of our Treasury gold, and have arranged for temporary loan of 70 lakhs from Gwalior

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Telegram from SECRETARY OF STATE to VICEROY, Financial Department, dated 19th December 1905

Currency transfer Your telegram of to-day To-morrow I will set aside half-a-million In order to guide me at allotment to-morrow, please inform me of the amount of transfers you can, without my setting aside further gold, meet this week When you reply, please keep in mind my announcement in my telegram of yesterday as to shipments of silver for this week and next week

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Letter from the GOVERNMENT OF INDIA to the SECRETARY OF STATE, No 144, dated 26th April 1906

Sir,

In your telegram of the 11th January 1906 you authorised us to raise the silver ingot reserve from 300 to 600 lakhs of tolas No steps, however, have yet been taken to give effect to this decision The extraordinary demand for rupees during the busy season which is now expiring completely exhausted our original reserve of 300 lakhs by the 15th January last, and we have only with difficulty been able, though employing the Mints at their full capacity, to maintain a supply of coin sufficient for immediate requirements Now that this pressure has been relaxed we desire to explain the manner in which we propose to build up an enlarged reserve, and to suggest other measures for strengthening our position

2. As regards gold, the position already attained is undeniably strong We have accumulated by a natural process a stock of over £12 millions in the Gold Reserve Fund, besides over £11 millions in the Currency Reserve, and in addition the paper currency investment now includes £1½ millions' worth of sterling securities During seven years we have never been threatened with serious attack from this side We are far from affirming that the point has been reached, or is in sight, when further accumulations of gold should cease Even a relatively small depletion of our total stock of gold might excite public apprehension, and this is the more important now that it has been decided to divide our stock by holding five millions or more in your currency chest in London At the present time we hold less than four millions of gold in India and we are assured that no material reduction in this figure would be consistent with public confidence We are, however, satisfied that further direct additions to the Gold Reserve Fund can with advantage be temporarily suspended if such a measure would enable us to strengthen our position on a weaker side

3. The case of silver is wholly different. From first to last our only practical difficulty has been the timely provision of rupees, and notwithstanding various improvements of method, that difficulty still remains, and as recent experience has again shown, it constitutes a real danger When



making our forecast for the busy season of 1905-6 we found ourselves, on the 1st October last, with a balance of 13 crores of coined rupees in the Currency Reserve, in addition to the ingot reserve of 300 lakhs of tolas, and bullion already ordered or purchased sufficient to produce nearly 280 lakhs more. Assuming a demand equal to that of the corresponding months of 1904-5, we might have expected, without further purchases of silver and without drawing on the ingot reserve, to be able to maintain a minimum rupee balance of more than 11 crores up to the end of January. But to be on the safe side we indented for 750,000<sup>l</sup> worth of additional silver by that date. In the actual event we had to ask you to increase your purchases of bullion during the period mentioned to £2<sup>3</sup>/<sub>4</sub>\* millions' worth, and we also converted into coin the whole of the ingot reserve. The fresh coinage amounted to 777 lakhs, or five crores more than had originally appeared to be required for the maintenance of a balance of 11 crores. Notwithstanding this enormous outturn our rupee balance has fallen by the end of January to 7<sup>1</sup>/<sub>2</sub> crores. On the 6th January we had to send you a further request for the purchase of £2<sup>1</sup>/<sub>2</sub> millions' worth of silver†, and we had to supplement our resources by obtaining a temporary loan of 70 lakhs from the Maharaja Scindia, and by purchasing Rs. 30 lakhs' worth of silver from the Russo-Chinese Bank. The depletion of our balances in India also embarrassed the Secretary of State in England, as, for example, when‡ we had to ask Mr Brodick to increase his purchases of silver, notwithstanding the risk of disturbing the silver market, and later, when§ we had to press you to transfer gold from Treasury to Currency, though advised that the withdrawal of gold from the reserves of the Bank of England would be inopportune. During this period our Mints have been working at the highest possible pressure, and the total net addition to the rupee coinage in 1905-6 has been about 16<sup>1</sup>/<sub>2</sub> crores of rupees, against 7<sup>1</sup>/<sub>2</sub> crores in 1904-5, and 13<sup>1</sup>/<sub>2</sub> crores in 1900-1 which till now marked the highest outturn recorded since the closure of the Mints. Nevertheless, while at the end of March 1905 we had 11,36 lakhs of coined rupees and 2,59 lakhs of tolas in ingot form in our Currency Reserve, the return of 22nd March 1906 showed only 11,65 lakhs of coined rupees with no ingot reserve at all.

4 It would have been futile to seek refuge from these difficulties in the curtailment of your drawings. If the sale of Council Bills is restricted, gold will be shipped and tendered for conversion into rupees after only a slightly longer interval, and that gold must ultimately be returned to England, at our cost, for the purchase of silver. The stoppage of telegraphic transfers disorganises trade and only defers the eventual demand. The adoption of such expedients can therefore only be justified by extreme and passing emergency. On the other hand it is obviously impossible that the rupee resources from which your drafts are honoured should be obtained from the actual gold on the deposit of which they were issued. The demand must always fall in the first instance on the stocks of rupees and bullion then in hand. It follows that for permanent safety these stocks must be materially strengthened, that their maintenance at a high figure must be recognised as a fundamental obligation of currency administration, and that we must accept any modifications of system which these conditions may necessitate.

5 To give effect to these conclusions we propose—

- (i) to form a silver reserve of 600 instead of 300 lakhs of tolas,
- (ii) to hold this bullion outside the Currency Reserve, and
- (iii) to accept and act upon the principle of advance coinage by coining rupees at the rate of 150 lakhs a month throughout the coming slack season (April to September)

6 The first of these measures has already received your approval, and the only observation which the fuller explanations now given are likely to suggest is that it is not by itself sufficient to afford us the protection we require. This criticism we hope to meet by our remaining recommendations.

\* The supplementary indents were half a million to be delivered by the 31st January, and £1<sup>1</sup>/<sub>2</sub> millions to be delivered by the 15th February.

† The further orders for £1 million of silver in each case, telegraphed to you on 8th February and 8th March, represent requirements subsequent to those of 1905-6.

‡ Telegram to Secretary of State, dated 19th November 1905.

§ Telegram to Secretary of State, dated 19th December 1905.

7 Our next proposal is to build up the enlarged bullion reserve entirely from profits on coinage, and to hold it as part of the Gold Reserve Fund. This method was not considered in 1904, when the amount of the Gold Reserve Fund was considerably below its present figure. The exhaustion of the original ingot reserve offers a convenient opportunity for reconsidering our procedure. In our judgment it is undesirable in principle to hold in the form of bullion any substantial portion of the metallic reserve which secures the encashment of our currency notes. The value of the metallic reserve is limited by the volume of the note circulation and the amount of the paper currency investment, and all bullion held within it must displace legal tender coin of equal value, and to that extent renders the metallic reserve less efficient. This objection could be waived when only a small amount of bullion was required, but it becomes more pressing in view of the decision to increase the ingot reserve to 600 lakhs of tolas.

8 It would of course be possible, while maintaining within the Currency Reserve an ingot reserve of 600 lakhs of tolas (representing roughly 4 crores of rupees) to raise the balance of coined rupees to any desired figure, but this could be effected only by unduly depleting our stock of gold. Thus, taking the note circulation at 42 crores, and estimating 18 crores as a suitable rupee balance with which to open the busy season, the Currency Reserve would be constituted as follows—in estimate, 12 crores, ingot reserve, 4 crores, coined rupees, 18 crores, gold, 8 crores or £5½ millions. It is obvious that we could not supply you with the £5 millions which you require for your currency chest, and meet even the present demand for gold as a circulating medium from the remaining 333,000*l*. Moreover, nothing at all would be left in India for contingent requirements, and in the event of an incipient drain of gold we should be driven back at once upon your currency chest and the Gold Reserve Fund. We have also to remember that the expansion of your drawings and the recent decision to grant telegraphic transfers against sovereigns in transit from Australia will check importation of gold into India in the future. On every ground, and even though a somewhat lower estimate be taken of the rupee balance required, and allowance made for a gradual expansion of the note circulation, it is clear that there is no longer room within the Currency Reserve for the large stock of bullion which we are now compelled to keep.

By holding the ingot reserve elsewhere we should, however, be able, on the data given above, to keep three millions of gold in our Currency Reserve in India. We do not think it advisable to go below this figure.

9 The natural method of maintaining a reserve of bullion for coinage purposes would be to purchase the amount required from revenue, and to replenish it from the same source as required from time to time. This would, however, involve either the reduction of our balances by about £2½ million sterling, which is quite impossible, or the raising of an equivalent amount by borrowing, with its attendant charge for interest. We are of opinion that this charge may fairly be thrown upon the Gold Reserve Fund, and that there is nothing inconsistent with the purposes of that Fund in the measure which we propose. At present, when silver is purchased for coinage, (1) we first replace by coined rupees the gold withdrawn to pay for the bullion, (2) the surplus bullion is then coined into rupees, (3) the latter are then again converted into gold, and (4) the latter is remitted to England for investment into interest-yielding securities. What we now propose is to suspend this process in the course of the second stage, *i.e.*, the surplus bullion instead of being coined, converted into gold, and invested, should be retained in a partially coined state until required for actual use. The profits on coinage which it represents will still be held apart as a part of the Gold Reserve Fund, and will eventually be converted into gold and invested, but this process will be deferred until the demand for rupees requires it. The effect no doubt is that the amount so held will not be earning interest in the meantime, but having regard to the rapid progress of our accumulation of gold in the Gold Reserve Fund in the past five years, we consider that the question of its further accretion by interest is now of less importance than the formation and maintenance of a sufficient reserve of silver bullion. Our currency system is unavoidably artificial, and the profits

arising therefrom should be primarily utilised, not in breeding interest, but in protecting it against the risks to which an artificial system is liable. At the outset the main risk apprehended was an inadequate stock of gold, hence the creation of the Gold Reserve Fund. Now the pressing danger is a temporary deficiency in our stock of rupees, which equally justifies the expansion of that Reserve Fund so as to include a silver bullion branch. Moreover, as will be observed from the next paragraph, there will be no prolonged or complete retardation of the growth of the gold reserve.

10. We propose, then, to convert our existing Gold Reserve Fund into a Gold and Silver Reserve Fund, into the silver branch of which we shall deposit in the form of silver bullion, prepared for coinage, all profits on future coinage until the full reserve of 600 lakhs of tolas has been accumulated. The precise method of working will be obvious from the following example. Taking silver at 30*d* per ounce we can purchase with £1 million of gold about 215 lakhs of tolas of standard silver. Out of this amount 150 lakhs of tolas will be converted into the same number of rupees and these rupees will replace the gold taken from the Currency Reserve. About three lakhs will represent the Mint charge for seigniorage, and about one lakh of tolas will disappear in wastage. There will remain about 61 lakhs of tolas of bullion which will be deposited in the silver branch of the Gold and Silver Reserve Fund as the profit on coining one and a half crores of rupees. With silver at 28*d* per ounce, the net profit on the same coinage would amount to about 76 lakhs of tolas of bullion. Thus the coinage programme of one and a half crores of rupees a month, which we are about to lay before you, will provide us with a minimum silver reserve of 3½ crores of tolas before the next busy season begins, and meanwhile the rupee balance in the Currency Reserve will have been strengthened by the addition of 9 crores. We shall of course go on to build up the full reserve of six crores of tolas as soon as further coinage produces the required profits.

11. To utilise this bullion reserve, if circumstances should require it to be drawn upon, we should coin into rupees and transfer to the Currency Reserve the amount required at the moment (say 150 lakhs), and credit the Gold and Silver Reserve Fund with the equivalent in gold (£1 million). Of this gold a sum worth about 61 lakhs of tolas of bullion (284,000*l*), at present silver prices, would be transferred to the Gold Branch of the fund as the profit on coining 150 lakhs, and the remainder would suffice for the re-purchase of the amount of silver which had been withdrawn (150 lakhs of tolas), besides meeting the seigniorage charge and the loss by wastage. The silver reserve would thus be automatically restored to its full amount.

It will thus be seen that whenever the bullion reserve is drawn upon, and of course after it has been finally formed, all subsequent profits will be credited directly in gold as heretofore, while the accrual of interest on the existing investments will continue unchecked. Thus the only effect on the stock of gold is that a sum of about £2½ millions (the amount required to purchase 600 lakhs of tolas) will be held in suspense in the form of silver, and will not earn interest.

12. We pass on to our third recommendation. The principle of coinage in advance of actual requirements was formulated in the despatch from Lord Curzon's Government, No 143, dated 27th April 1905. We are of opinion that more complete effect should now be given to the conclusions there stated. We would note, in the first place, that the proper function of the bullion reserve is to provide for unforeseen demands. The normal coinage of the year should be evenly distributed, instead of being concentrated into the busy season when the bullion reserve itself may require to be converted into coin. By following a different practice in the past we have incurred a grave risk. In the last few months the Mints, as already stated, have been working at extreme pressure, and the occurrence of labour troubles such as actually took place in the Government Press at Calcutta would have led to the most serious results. In the coming year certain structural alterations have to be carried out at the Bombay Mint, and the possibility that they may interfere with the work of the busy season is an additional reason for making ample preparation beforehand. Secondly, we would point out that the limit of reliance upon a reserve of bullion is reached when the reserve becomes

so large that the time taken to coin it exceeds the time required to replace withdrawals by fresh purchases in England. Any further strengthening of our stocks can then be most advantageously effected by working up to a higher balance of coined rupees at the beginning of the busy season. Thirdly, we have to bear in mind that our bullion reserve in the Gold and Silver Reserve Fund will for some time to come be below its full intended amount, and though we could, of course, for the present, hold the balance of the six crores of tolas in the Currency Reserve, it will cause less complication and yield the same result if we raise the number of coined rupees to a higher amount than would otherwise be necessary. Advance coinage has also the advantage of spreading the demands on the silver market more evenly. And, generally, we recommend it as an obvious measure of precaution, unattended by counterbalancing risks. Experience shows that a temporary surplus of rupees will inevitably be soon absorbed, and in the meantime the excess coin remains locked up in our balances and reserves, and cannot affect prices and the course of exchange. We trust that in view of these considerations you will be prepared to accept the programme of coinage which we now lay before you, and to make purchases of silver in accordance with it.

13 The facts already stated suggest that 18 crores is by no means an excessive estimate of the number of coined rupees which we ought to have available in our Currency Reserve on the 1st October, when the busy season is about to open. The absorption of the five months October to February inclusive has averaged about Rs 7½ crores during the last six years, while in 1905-6 it amounted to no less than 14½ crores. It is clear, therefore, that in a year in which your Council drafts are heavy our stock of rupees, though standing at 18 crores on the 1st October, will still require to be supplemented by the continuous coinage in the cold weather months, while if they prove relatively light, we can reduce or stop the outturn of the Mints. For 1906-7 we estimate that we shall have to coin 9 crores at the rate of 1½ crores a month between the 1st April and the 30th September next to attain the 18 crore standard, while, as above pointed out, the ingot reserve will then be still below its full amount.

14 As we have already explained, during the period when profits on coinage are being credited in silver, the coinage of each 150 lakhs of rupees involves the purchase of £1 million's worth of silver. An outturn of 9 crores of coined rupees will accordingly require the supply of six millions sterling worth of bullion. Excluding the indent of the 8th March we shall have in hand or already ordered, on the 1st April, a little over 2½ millions' worth, the coinage of which, at the rate of 150 lakhs a month, will occupy the Mints to the end of May. Accordingly for the coinage operations of June to September we require £1 million's worth of bullion a month, timed to arrive on or before the middle of each month from May to August. We have already in pursuance of this programme requested you in our telegram of 8th March last to purchase and ship £1 million's worth in full by the 15th May and on the 7th April we asked you to send out a like amount not later than 15th June. We desire to follow this up by similar orders of £1 million each in May and June for full delivery by the 15th July and the 15th August respectively. Such further demands as we may have to make for the cold weather months will then be regulated by the actual position towards the close of the slack season, and by the progress of your Council drawings.

We have, &c,  
 (Signed) MINTO.  
 KITCHENER.  
 A. T. ARUNDEL.  
 DENZIL IBBETSON.  
 H. E. RICHARDS.  
 E. N. BAKER.  
 C. H. SCOTT.  
 C. L. TUPPER.

Despatch from the SECRETARY OF STATE to the GOVERNMENT OF INDIA,  
No 57, dated 25th May 1906

MY LORD,

I HAVE considered in Council your letter No 144, dated 26th April, recommending that a portion of the Gold Reserve Fund shall be held in silver

2 I am of opinion that there is no objection in principle to the change in the character of the fund which this proposal involves. The general object for which the fund was established was to provide, in the spirit of the recommendation made by the Indian Currency Committee of 1898, that the profit on the coinage of rupees shall not be treated as a part of the revenues of India, but shall be separately held and used for a special and well defined purpose. In 1900, when a scheme for establishing and dealing with the fund was approved by Lord George Hamilton, it was considered that the most useful purpose to which it could be devoted was to provide against the contingency of a fall in the exchange value of the rupee, and it was accordingly decided to hold it in gold or in sterling securities so that the sale of bills and telegraphic transfers on India might be reduced or suspended when the demand was inactive, a portion of the gold or securities being temporarily used, if necessary, towards meeting disbursements in this country. This object is one which must always be borne in mind, but it is equally necessary to provide that, at times when the trade demand for remittances is active, it shall be met promptly and freely, and it is equally legitimate to use the fund for this purpose, provided that it is not treated as a part of the revenues of India. Under your scheme a portion of the profits of rupee coinage would be held on behalf of the fund in silver to be used in meeting a demand for remittances in excess of the amount that could be met from your other resources, the proceeds of such excess remittances being devoted to the purchase partly of additional sterling securities for the fund and partly of silver to make good the amount withdrawn. The total of the fund would remain intact and would be increased as now by the profit on additional coinage and the whole amount would be kept separate from your Treasury balances and the Paper Currency Reserve. I accordingly approve your proposal.

3 In the latter part of your letter you inform me that you desire to coin enough rupees during the six months from 1st April to 30th September 1906 to secure that at the latter date you may have 18 crores in your Paper Currency Reserve, you estimate that this programme will require the coinage of nine crores during the period mentioned and you ask that silver to the value of 2,000,000*l* may be ordered, in addition to the amounts requested in your telegrams up to and including that of 7th April. I find that on the 3rd of May you had in the Currency Reserve 1,379 lakhs of rupees, and bullion to the value of 237 lakhs, including the amount in transit. The value ordered but not yet supplied was 1,130,000*l* (169 lakhs). Taking the price of silver at 30*d* an ounce, the total amount of bullion in your possession, in transit, and still to be purchased on account of orders up to and including that which was given on receipt of your telegram of 7th April, was about 650 lakhs of tolas and the disposal of this amount, according to the figures given in paragraph 10 of your letter, would be as follows —

Rupees added to Currency Reserve	-	-	453 lakhs.
Seigniorage and wastage	-	-	12 „
Bullion transferred to Gold Reserve Fund	-	-	
(lakhs of tolas)	-	-	185 „

Thus, if no allowance is made for absorption of rupees through the presentation of notes for encashment up to the end of September, the rupees in the Paper Currency Reserve at that time would, apart from further purchases, exceed 18 crores, while the bullion held in the Gold Reserve Fund would amount to 185 lakhs of tolas. The figures for past years show that during the period from April to September there is sometimes an absorption of rupees and sometimes an automatic addition of rupee reserve. It is thus possible that the purchase of 2,000,000*l* silver in addition to the

amount already ordered may be in excess of what is required in order that you may have 18 crores of coined rupees in the Paper Currency Reserve by the 30th September, and may also have in your possession 3,50,00,000 tolas of bullion, the amount mentioned in paragraph 10 of your letter. You will be in a position to judge in the course of June whether the full 2,000,000*l* is required. Meanwhile, in accordance with the request contained in your telegram of 8th May, I have ordered silver to the value of 1,000,000*l*, and have given instructions that delivery shall, if possible, be completed in India by 15th July. Even if this should not be practicable, the bullion that you now have, together with the weekly shipments, will be enough to enable you to proceed with coinage at the rate of 150 lakhs a month for some time beyond that date.

4 It remains to consider in what manner the funds shall be provided for purchasing this additional 1,000,000*l* of bullion, together with the further amount suggested by you in paragraph 14 of your letter. The usual practice is to make payments of this nature in the first instance from the balances of the Home Treasury, and to replenish those balances, as far as the convenience of your Government permits, by the transfer of gold from the amount held in this country as part of the Paper Currency Reserve. It will, no doubt, be possible to arrange in the course of June and July for the transfer of considerable sums from the Paper Currency Reserve in addition to the 1,650,000*l* mentioned in your telegrams of 10th and 18th April and 2nd May, but it occurs to me that, if the use of this procedure appears likely to involve an excessive depletion of the gold held in the currency reserve, the balance in this country can in case of need be replenished by realising a portion of the securities held on behalf of the Gold Reserve Fund. If this is done the simplest course will be to arrange that a portion of the Treasury bills shall be paid off as they mature instead of being renewed. Thereupon a transfer of a corresponding amount in rupees or silver bullion can be made to the Gold Reserve Fund in India, the net result being that an addition to the total stock of silver in your possession will have been made without affecting the stock of gold or the balances in this country or in India. It is possible, of course, that the condition of the Treasury balances during the next few months may be such as to render it unnecessary to have recourse to this method of providing for the purchase of silver, but I shall be glad to be informed by telegram whether you are in favour of its adoption if occasion arises. If you agree to the suggestion I shall inform you by telegram when a realisation of the securities is contemplated, in order that you may arrange at your convenience for the necessary transfer of silver. In any event I propose to continue as now the investment of dividends on securities held on behalf of the fund.

5 I observe that in various passages of your letter you refer to the fund as the Gold and Silver Reserve Fund, and I gather that you desire that this shall be its designation in the future. It appears to me that it would be better to adopt a name which describes either its origin or the purpose for which it is maintained, and I suggest that it should be known in future as the Gold Standard Reserve, the name suggested in Lord George Hamilton's Despatch of 13th December 1900, No 232.

I have, &c,  
(Signed) JOHN MORLEY.

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Despatch from the SECRETARY OF STATE to the GOVERNMENT OF INDIA,  
No 85 Financial, dated 20th July 1906

MY LORD,

In the telegraphic correspondence\* noted in the margin you discuss the question raised in the fourth paragraph of my Despatch of

\* From Viceroy, dated 20th June 1906 To ditto, dated 28th June 1906. From ditto, dated 4th July 1906. (Not printed)

25th May last, No 57, whether, in order to avoid excessive withdrawals from the gold held in this country on behalf of the Paper Currency Department, it is advisable to arrange for the discharge of a portion of the Treasury Bills held on behalf of the Gold Standard Reserve, the money thus received being added to the balances of this Office to make good the depletion caused by the large purchases of silver recently made at your request, and the Gold Standard Reserve being restored to its present amount by the transfer to it of silver bullion or rupees in India of a value equal to the Treasury bills paid off

2 You state in your telegram of 4th July that the gold belonging to the Currency Department in this country serves the primary purpose of providing funds for the purchase of silver, and that, so long as it is applied to this purpose, you see no objection to its being almost or entirely depleted. This is a view which I cannot share. The possession of a large amount of gold by the Secretary of State in Council or the Government of India as part of the Paper Currency Reserve or in the Treasury balances is of considerable advantage to India as helping to maintain confidence in the permanence of the gold standard and in the stability of the exchange value of the rupee. Since February last, the gold held by your Government and myself has decreased by 5,000,000*l*, and the total holding now stands at little more than 7,000,000*l*. I gather from your telegram of 4th July that you would have no objection to a further reduction, bringing the total down to about 3,500,000*l*, and that you would prefer a reduction to that figure rather than the realisation of a portion of the Treasury Bills held on account of the Gold Standard Reserve.

3 As at present advised, I think that a reduction of the total stock of gold to the figure that you have mentioned would be disadvantageous to Indian interests, and if towards the end of September it seems probable that the use of the gold in the Paper Currency Reserve as the sole source (other than the sale of Council Bills) for replenishing the balances of the Home Treasury will result in reducing the total holding of gold by the Government below 6,000,000*l*, I contemplate presenting for payment a portion or the whole of the 800,000*l* Treasury Bills maturing on 28th September. Though I have mentioned 6,000,000*l* as a minimum for the present purpose, I think it desirable that the amount of gold held by the Government of India and the Secretary of State in Council should, as a rule, be considerably in excess of this figure.

4 It is, of course, to be understood that Treasury Bills will not be realised unless the condition of the Home Treasury balances renders it necessary.

I have, &c,  
(Signed) JOHN MORLEY

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Letter from J S MESTON, Esq I C S, to L ABRAHAMS, Esq,  
Financial Secretary, dated 18th October 1906.

FINANCE DEPARTMENT. Simla, 1906

DEAR MR ABRAHAMS,

OUR coinage programme, which was explained in Financial Despatch No 144, dated the 26th April last, has now been completed as far as it referred to the first half of the current year. We proposed, and the Secretary of State sanctioned the proposal, to coin 9 crores of rupees from purchased silver between April and September, with the object of securing a balance of 18 crores in our Currency Reserve on the 1st October. We anticipated that the profits on the operation would be represented by at least 3½ crores of totals of silver bullion, lodged in the newly formed silver branch of the Gold Standard Reserve.

2 During the six months, our Mints have coined approximately  $9\frac{1}{2}$  crores of new rupees. Close on  $3\frac{1}{2}$  crores of tolas of silver have been placed in the Gold Standard Reserve, and some further payments which are necessary to bring up the full ratio of Mint profits are now being made. Finally the Currency Reserve on 1st instant held over  $19\frac{1}{4}$  crores of coined rupees, so that our programme has been fully worked up to

3 It has also been fully justified by the heavy demand for rupees. Although the net absorption of rupees for the six months was only about  $3\frac{3}{4}$  crores, and the Currency Reserve on the 1st instant was considerably stronger than was estimated in March, yet the issue of rupees since the busy trade season set in has been phenomenally heavy. In August and September 625 lakhs were withdrawn against 365 lakhs in 1904-5, which was the highest figure of absorption for those two months during the last six years. The jute crop has been an excellent one, and the prices have risen beyond all expectation, they were all but double those of last year at the same season.

4 There is reason to believe that the drain on the Reserve will continue. The cotton harvest promises well, and it would not be safe to anticipate a smaller trade demand for rupees during the winter months than we had to face last year. In November-February of 1905-6 the absorption was almost  $12\frac{3}{4}$  crores, and it is quite possible that our issues this winter may exceed even that figure. With this prospect before us, we shall have to keep the Mints fully engaged up to Christmas, and hence our continued indents upon you for silver, as well as our purchase of about 700,000*l* worth from the Russo-Chinese Bank in this country.

5. The great activity of trade, and the suddenness and magnitude of the demand for rupees which it forces on us, have led us to consider carefully where to turn for assistance in case of need. Something has on two recent occasions been obtained by means of temporary loans from a Native State, but this resource is uncertain and does not carry us very far. The most promising resource is the Gold Standard Reserve. The silver branch of this now amounts to over  $3\frac{1}{2}$  crores of tolas, stamped into blanks, ready for coinage into standard rupees within a period of four days. By the end of November we anticipate that it will have reached the neighbourhood of four crores, and with expanding coinage it should continue to increase. It now stands outside the Currency Reserve, and (of course) is quite distinct from our ordinary cash balances. It forms a most convenient and readily available resource, and we think that it would be quite legitimate to draw upon it temporarily whenever our other cash reserves were for the time being exhausted. When it was so drawn upon, the amount appropriated should be treated as a temporary loan, bearing interest at the ordinary rate of  $3\frac{1}{2}$  per cent, and should be replaced as soon as the state of our balances permitted.

6. To enable us to resort to this expedient in case of need, we think that the balance of silver in the Gold Standard Reserve should be coined into rupees as speedily as convenient, and that in future all balances should be held in that form, and not in the form of blanks. In paragraph 61 of the Financial Statement for 1905-6 a contrary view was expressed. But at that time the Ingot Reserve, as it was then called, was held as part of the Currency Reserve, and it was considered important to hold it in a form naturally different from that of the ordinary currency. Now that the silver branch of the Gold Standard Reserve (which has taken the place of the former Ingot Reserve) stands quite apart both from currency and also from our cash balances, the reasons for maintaining it in a different form have ceased to exist. We could no doubt draw upon it immediately by transferring it to currency in exchange for rupees and this would be done in case of necessity, and it could be coined into rupees (provided that the Mints were free) at the cost of a delay of about four days from the start. But if the amount required were considerable, as is likely, the aggregate delay in coinage might be much greater, and we should be reluctant to accept the risk involved in an exchange for rupees in currency, the stock of which, though at the moment ample, is very far from stable.



7 We therefore desire the sanction of the Secretary of State—

- (1) to the coinage, as convenience permits, of the silver in the Gold Standard Reserve into rupees, which will be kept entirely separate from our ordinary balances and from the Currency Reserve exactly as at present, and
- (2) to our drawing upon the stock thus made available, when circumstances may require, in the form of temporary loans bearing interest at  $3\frac{1}{2}$  per cent. All such transactions will be reported to you by wire as they occur

Yours, &c,  
(Signed) JAS. MESTON.

Despatch from the SECRETARY OF STATE to the GOVERNMENT OF INDIA,  
No 135, dated 16th November 1906

MY LORD,

I UNDERSTAND from your Financial Secretary's letter No 5,851 A, dated 18th October 1906, that you desire to hold in the form of rupees, instead of uncoined blanks, the silver portion of the Gold Standard Reserve, and to be permitted to take temporary loans from the Reserve at  $3\frac{1}{2}$  per cent interest when the necessity arises for strengthening your Treasury balances at short notice

2 I approve the former proposal. I also agree that the silver in the Reserve may properly be used for strengthening your Treasury balances in an emergency, even when you are not able to pay into the Reserve the equivalent in gold of the amount withdrawn, and a suggestion to that effect was made in my telegram of 30th October. If at such a time the state of the Home Treasury balances does not permit of my investing on account of the Reserve a sum equivalent to the amount withdrawn in India, the best course will be to treat as a loan, in the manner proposed by you, the amount withdrawn. In that event the total assets of the Reserve will be shown in the published statements as consisting partly of securities, partly of money due from your Government, and partly, perhaps, of silver. To include a large debt from your Government as one of the assets of the Reserve is a course not free from disadvantage. I should agree to it in such circumstances as I have described above, but I am of opinion that ordinarily an investment in securities on behalf of the Reserve should be made, if the state of the Home Treasury balances admits, in order to make good amounts withdrawn in India. When investments of this nature are made in England, Treasury bills can be bought so that if, at the time of their maturity, you are prepared to restore the silver in the Gold Standard Reserve to its former amount, the Home Treasury balances can at once be replenished without the risk of loss of capital value. You should, therefore, inform me in good time whenever you contemplate a transfer of silver from the Reserve to your Treasury balances, in order that I may consider on each occasion whether to make an investment in this country in respect of the whole or a part of the withdrawal.

I have, &c,  
(Signed) JOHN MORLEY

Telegram from SECRETARY OF STATE to VICEROY, Financial Department,  
dated 30th November 1906

I am selling telegraphic transfers at the price of  $1/4\frac{5}{32}$ . Do you see any objection to my selling freely?

Telegram from VICEROY, dated 4th December 1906

Your telegram dated 30th November. You may sell telegraphic transfers aggregating Rs 1,00,00,000 on 5th and 12th instant, on the understanding that you do not sell in each week bills and transfers amounting together to

more than Rs 1,20,00,000 We shall be glad to have a further telegram in case you propose making heavy sales of transfers after the 12th December, as it may not be in our power to meet them

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Telegram from SECRETARY OF STATE to VICEROY, Financial Department,  
dated 5th December 1906

Telegraphic Transfers Your telegram of yesterday In spite of sale of 50 lakhs to-day the demand seems likely to be strong It seems desirable that I should sell freely, even beyond the limit which you mentioned, if necessary, in order to avoid inconvenience to trade by restricting sales, and that you should follow the course approved in my Despatch No 135 of 16th November, and borrow from the silver portion of Gold Standard Reserve to supplement your balances Please reply on Thursday, and, if you agree, state how much I may sell each week in Transfers up to the end of 1906, and how much in Bills

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Telegram from VICEROY, dated 6th December 1906.

Telegraphic Transfers Yours 5th December Unless serious emergency arises in India, we are very unwilling to borrow from silver branch of Gold Standard Reserve Present demand should, in our opinion, be met by sale in London of Telegraphic Transfers against Currency, the proceeds being placed in your Currency Chest

Until our November balances are compiled on the 10th instant, we cannot supply you with the weekly estimates desired We will telegraph on the 10th or 11th, and in the meantime we agree to your offering for sale at once the 50 lakhs of Telegraphic Transfers which we agreed might be sold on the 12th instant.

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Telegram from VICEROY, dated 7th December 1906.

Telegraphic Transfers As extreme stringency exists in the money market here, with possibility of serious panic, we should like to make an announcement on 8th instant that the Secretary of State will, during the next three weeks, be prepared to sell transfers freely without restriction up to the amount advertised, and beyond it to such extra amount as you think will be possible We must, if this action is taken, transfer silver from Gold Standard Reserve unless you can come to our assistance by selling against Currency Please reply to-day whether you agree

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Telegram to VICEROY, dated 7th December 1906.

Telegraphic Transfers Your telegrams of 6th and 7th instant Announcement may be made in India that Secretary of State is prepared to sell transfers freely at rates not exceeding 1s 4 $\frac{3}{16}$ d —the present rate for specials. You should strengthen your balances in case of need by borrowing from the silver portion of the Gold Standard Reserve and let me know the amount of such loans For various reasons I wish to avoid addition of gold to Currency Reserve in London This would, for example, entail diminution of reserve of Bank of England and, by its effect on discount rates in London, would probably interfere with arrangements for renewing debentures of Guaranteed Railways maturing in December

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Telegram from VICEROY, dated 8th December 1906

Telegraphic Transfers Announcement in the terms of your message dated 7th December has been made; but it is necessary to state clearly that we shall not be able to meet your drawings without limit That is to say, we cannot meet them to an extent of more than 4 crores in December besides paying all the transfers and bills already drawn by you, even if we completely

use up the silver in the Gold Standard Reserve. Payments on this scale, which would, we are convinced, exhaust our only available reserve, are most strongly to be deprecated. We may possibly also be obliged to grant a loan to the Bank of Bengal. We therefore venture again to press you to draw against Currency. If, as is unavoidable, your total drawings must be restricted, it can make no difference to the Bank of England whether you adopt our suggestion or not, as in the latter case the Exchange Banks will be compelled to take gold from the Bank for shipment to India, involving delay and expense to trade.

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Telegram from VICEROY, dated 10th December 1906

Telegraphic Transfers. My telegram of 8th December. A loan of Rs 25,00,000 is being taken by the Bank of Bengal, and they will probably apply shortly for a further loan of the same amount. Money stringency continues in an acute form, and the four principal Exchange Banks at this Presidency have to-day approached us for assistance. Their request is that we should for the next three weeks advance to them Rs 60,00,000 a week on their conjoint security, and on their promising to repay us by purchasing telegraphic transfers when their bills are discounted in London.

We are not prepared to assist the Exchange Banks by making direct advances to them, but in the very exceptional circumstances which exist we are willing to help the Presidency Banks to finance them, and this we propose to do by making advances of Rs 40,00,000 a week for three consecutive weeks to the Bank of Bengal, requiring repayment of such advances three weeks after the dates when they are made.

Please inform us at the earliest possible date whether you agree to this proposal. It will have the effect of diminishing from 4 crores to 280 lakhs the amount of your drawings which we can meet without obliging you to draw against currency.

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Telegram from SECRETARY OF STATE to VICEROY, Financial Department, dated 11th December 1906

Telegraphic Transfers. Your telegrams 8th and 10th instant. We should, if possible, avoid transfer of currency to gold in London, at any rate until early in January. By then the holders of the debentures to which I referred in my telegram 7th December will have decided about renewing. If gold were transferred, the probability of refusals would be increased, and thus an inconvenient drain on my Treasury balances might be caused. The suggestion made in your telegram of 8th instant that gold might be shipped from London by Exchange Banks is very unlikely to be realised. Therefore, before I resort to drawing against Currency, loans from Gold Standard Reserve should be taken to a considerable extent. At the same time I recognise that it may ultimately be necessary for me to draw against currency. With reference to the question of helping the Exchange Banks by loans, the head offices tell me that they are prepared to supply their requirements in India by buying transfers and bills in the usual way, and that they have no knowledge of the application made by their Calcutta branches to you. This being so, it seems unnecessary for you to make special advances to the Bank of Bengal as suggested. Please keep me informed of the situation, and answer the following questions: (1) Do you wish me to buy more silver? (2) May I now assume that, if drawings against currency are not made, 400 lakhs is the limit of drawings that you can meet up to 31st December? (3) Is it the case, as I presume, that this limit covers only the bills sold on 12th December and transfers sold between 10th and 31st December, and that bills sold after 12th December, which will not be paid until January, are outside the limit?

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Telegram from VICEROY, dated 15th December 1906.

Telegraphic transfers Yours, 11th December We have dropped the scheme of special advances to the Bank of Bengal for assistance of Exchange Banks, having heard nothing further from them At present we do not require more silver On 13th instant, we borrowed from Gold Standard Reserve Rs 90,00,000 worth of silver, and are coming up the blanks now Probably we shall need to borrow the whole amount, which now stands at about 345 lakhs of tolas Rs 4,00,00,000 should be regarded as the limit of your drawings up to 31st December, and the figure should be taken to include bills sold on 12th December, and transfers sold between 10th and 31st In order, however, to keep down the number of bills which will have to be met here in early January, when our balances will be low, we should prefer that the greater portion of transfers drawn by you within the 400 lakhs limit should consist of regular sales.

Telegram to VICEROY, dated 18th December 1906.

Your telegram, 15th December Before receiving it I had already given an order for silver to the value of half a million 135,000*l* of this has been purchased The remainder of the order can be cancelled if you wish it, but I think it would be preferable to complete it, thus beginning to make provision for repaying amount borrowed from the Gold Standard Reserve Please telegraph at earliest convenience what are your views

Telegram from VICEROY, dated 18th December 1906.

My telegram, 15th December A further loan of Rs 1,69,00,000 in rupees and blanks is being made from Gold Standard Reserve Are you making corresponding investments in London against these loans? Please telegraph reply.

Telegram from SECRETARY OF STATE to VICEROY, Finance Department,  
dated 20th December 1906

Your telegram of the 18th instant I am not making investments on behalf of the Gold Standard Reserve It is proposed to treat your withdrawals entirely as loans from the reserve, to be repaid by you in India

Telegram from SECRETARY OF STATE to VICEROY, Finance Department,  
dated 20th December 1906

Purchase of silver. My telegram of 18th December. I have decided to complete the purchase of the 500,000*l*. As the silver is bought it will be added to the Currency Reserve, and I shall thus be able to sell transfers against it over and above the limit of 4 crores What amount of transfers can you still meet from cash balances and Gold Standard Reserve independently of the 500,000*l* silver which I am purchasing as above mentioned, (a) between now and 28th December, (b) between 28th December and 4th January? Please telegraph reply It would be most desirable, if possible, not to transfer gold to Currency Reserve here before the 4th January

Telegram from VICEROY, dated 20th December 1906.

Silver Your telegram of 18th instant We agree that you should finish purchase of half-million sterling, but we do not anticipate that we shall want any more for the present, and we request that you will communicate with us before making any further purchase. We shall be glad if you will, so far as convenient, now invest gold in England (as proposed in your Despatch No. 135 of 16th November 1906), against the silver (1,800,000) which has been borrowed in India from the Gold Standard Reserve, letting us know from time to time how much has been invested

Telegram from VICEROY, dated 22nd December 1906

Telegraphic transfers. Your telegram of 20th December. It is not possible for us to meet more than 25 lakhs up to 4th January, as already intimated. It makes no difference whether this amount is drawn before 28th December or after that date.

It will almost certainly be necessary for us, owing to your drawings of 120 lakhs on the 26th December, to ask you to assist us before 11th January through your Currency Chest, but details will be telegraphed to you later on.

Telegram from SECRETARY OF STATE to VICEROY, dated 24th December 1906

Your telegram dated 20th December. When the order for half a million pounds worth of silver has been completed, I will refer to you before making any further purchases.

As regards loan from the Gold Standard Reserve, I recognise that, owing to my heavy drawings having reduced your balances, the necessity may eventually arise for investment in this country in order to make good the reserve, but, as indicated in my telegram of the 20th December, I prefer at present to consider your withdrawals purely as loans.

Please notify me of your further borrowings from the Gold Standard Reserve.

Telegram from VICEROY, dated 24th December 1906

Gold Standard Reserve. We have made a further transfer from it to Treasury of Rs 1,10,25,000 in rupees and silver bullion, in addition to the transfers already reported to you.

Telegram from SECRETARY OF STATE to VICEROY, Financial Department, dated 27th December 1906

Telegraphic transfers. As sales to-day amounted to over 90 lakhs, and as further sales will probably take place very shortly, I shall transfer 500,000*l* to Currency Reserve on the 28th instant. (See your telegram of 22nd instant.)

Telegram from SECRETARY OF STATE to VICEROY, Financial Department, dated 1st January 1907

In continuation of my telegram, 27th ultimo. To-morrow evening I shall transfer to Paper Currency Reserve an additional half-million sterling. Until Thursday next this information should be regarded as confidential.

Telegram from SECRETARY OF STATE to VICEROY, Finance Department, dated 9th January 1907

Telegraphic transfers. I have to-day sold about 84 lakhs in ordinary sales of transfers, followed by 4 lakhs of specials. Let me know as early as possible to-morrow whether you wish me to transfer more gold to Currency Reserve. Will you further consider by what date a portion of the gold transferred to Currency can be released?

" " " "

" " " "

Telegram from VICEROY, dated 10th January 1907

Your telegram of yesterday. At present we shall not need transfer of more gold to Currency Reserve. As regards the release of gold from Currency Reserve we shall in a day or two telegraph our views.

Telegram from SECRETARY OF STATE to VICEROY, Finance Department,  
dated 14th February 1907

Refer to your telegram 24th ultimo\* and Comptroller-General's 9th instant † If you find that my drawings up to the end of 1906-7 are too large for you to meet from your Treasury balances besides repaying to the Gold Standard Reserve 380 lakhs of rupees, I think a postponement of that repayment would be preferable to a transfer of gold to Currency Reserve in England. My balances are at present earning interest at 4½ per cent, and the transfer would involve their reduction.

Telegram from VICEROY, dated 16th February 1907

With reference to your telegram 14th February Despatch now under issue, and also letter from our Financial Secretary which went on 14th instant, express our views on the repayment of loans from Gold Standard Reserve. Since the present position is that supply of rupees in India is sufficient, while our and your balances combined are adequate for purposes of treasury, a continuance of the loan of silver from Gold Standard Reserve is not justifiable, nor, in our opinion, can comparatively small gain in interest secured to you thereby compensate for using the Reserve in a manner foreign to its avowed object. We trust that you will, before the 31st March, give us the help necessary to restore the Reserve as early as possible, a matter to which we attach great importance.

Letter from the GOVERNMENT OF INDIA to the SECRETARY OF STATE,  
No 66, dated 21st February 1907

Sir,

We have had under consideration your Despatches No 85 (Financial), dated the 20th July 1906, and No 135 (Financial), dated the 16th November 1906, as well as the telegrams, † recently interchanged on the subject of your drawings upon us during December 1906. In the course of the correspondence you have been unable to accept our recommendations upon two questions which have an intimate bearing upon our currency policy. We are confident that you attach the same high importance as we do to maintaining the closest continuity in that policy, and it may be well that we should fully explain to you our views upon those points where we are apprehensive of innovation.

2. The first matter to which we invite your consideration is our recent loan from the Gold Standard Reserve, from which we have had to transfer the whole of its silver branch to our treasury in order to meet your large issues of Telegraphic Transfers since the first of last month. The importance of the Gold Standard Reserve as one of the main guarantees for the stability of our currency system is now fully recognised by the commercial public. Its published accounts are subjected to scrutiny and criticism, and it is clearly incumbent on us to avoid any treatment of the reserve which might impair public confidence in its efficiency. We consider it therefore most essential to treat the reserve as a fund which may be drawn upon for the specific

\* Telegram from VICEROY, 24th January 1907

With reference to your telegrams 15th and 18th January. We agree to your proposal to draw 42,000,000/ Further, if you find it convenient to draw another 1,000,000/ in Council Bills in two years to recoup the sums transferred to your Currency chest from your Treasury on 28th December and 2nd January, we should have no objection.

Our present forecast admits of our meeting from our Treasury balances your drawings up to a maximum of 26,500,000/ during 1906-07. This forecast excludes any further drawings on account of the purchase of silver from your Treasury. But if during the current year you transfer gold to your Treasury from your Currency chest, you should reduce by an equal amount your drawings in 1906-07 against our Treasury balances. If during 1906-07 you draw more than 26,500,000/, it may be necessary to ask you to help us through Currency, in order to strengthen our balances.

† Telegram from COMPTROLLER GENERAL, 9th February 1907

Cash balances in Indian Treasuries at close of last month, Rs. 12,95,00,000. Estimated balances 28th February next, Rs. 13,75,00,000, 31st March next, Rs. 13,00,00,000. Estimate of Council Bills payable, including telegraphic transfers against gold in transit to England, February, 500,000/, March, 300,000/. Estimate assumes repayment India 380,000/ Gold Standard Reserve, and purchase 1,000,000/ silver February, March, from Home Treasury branch.

‡ Beginning with your telegram dated 30th November 1906, and ending with your telegram dated 1st January 1907.

purposes for which it was established, and for no others. It would be in full accord with the declared objects of the reserve that you should draw on its gold branch to support your treasury in the event of any material fall in exchange, or that we should draw on its silver branch when threatened by a shortage in our stock of rupees in India. In the former event we should recoup the reserve by paying silver into it in India, pending a suitable opportunity for an equivalent remittance of gold to England. The procedure to be observed in the latter contingency was explained in our Despatch No 144, dated the 26th April 1906, and we desire to adhere in their entirety to the principles there laid down. To employ the reserve, however, for any other purpose than those indicated above is, in our opinion, to be deprecated as a variation from our currency policy which may seriously weaken it and would certainly be liable to general misconstruction.

We have not overlooked the fact that, in October last, we asked your consent to borrow from the Gold Standard Reserve in case of emergency. We consider that, under certain conditions, it would be permissible to take a loan from the reserve, just as we might do from a Native State. But we entirely accept your views of the disadvantages of such action. Moreover, we see equally strong objections to taking a loan, as you have suggested, against an investment on behalf of the reserve in England, for an arrangement of this nature would imply that you held spare funds in your home treasury, with which you could assist us either directly, or by a remittance through Currency, or by the purchase of silver for shipment to us. When a sterling investment is made in the Gold Standard Reserve against a corresponding withdrawal from its silver branch, the fact indicates that circumstances have arisen which justify us, not in taking a temporary loan from the silver branch, but in using it outright, leaving it to be built up again in the usual way from the profits of new coinage.

3 Holding these views, we cannot but regret the necessity for utilising the whole of the silver in the Gold Standard Reserve during last December. The occasion was not one for calling up the reserve in defence of our currency stock of silver. We were suffering at the time from no shortage of rupees, as our currency reserve had close on 17 crores at the beginning of December and would not have fallen below  $13\frac{1}{2}$  crores, even if it had received no assistance from the Gold Standard Reserve, by the end of the month. We had thus an ample supply to meet all requirements for trade remittances, and no occasion for using the silver outright had therefore arisen. Nor was it an occasion for borrowing from the reserve. In our judgment, that course is, as a rule, only justifiable when we are confronted with a shortage of rupees, which is of a strictly temporary character, likely to be made good within a moderate time without resorting to new coinage. These conditions did not obtain on the present occasion. It is true that our treasury balances were low, but our resources as a whole were well over the margin of safety, and the position contained no element of crisis such as would ordinarily have forced us to seek for a loan. The compulsion arose from the tightness of money in the London market, and from your apprehension of difficulty in renewing the guaranteed railway debentures which matured during the month. These considerations apart, it would apparently have been within your power to assist our treasury balances by transferring gold to your currency chest,† or to relieve the pressure upon them by drawing upon our Currency Reserve. We recognise the difficulties of the position, which were aggravated by an abnormally keen competition for money in India happening to coincide with great stringency in the London market. But, on the other hand, we would urge the grave disadvantages of any action which would interfere with the development or shake the credit of our currency system.

4 The second question which we would ask you to reconsider concerns the proper use and functions of the gold which you hold in London on behalf of our Paper Currency Department. In your Despatch of the 20th July 1906, you demurred to our view that your currency chest might be depleted without scruple, so long as its contents were employed in the purchase of silver. You considered that a substantial holding of gold in the treasury balances and

\* Despatch No 135 (Financial), dated the 16th November 1906, page 146

† Under section 13 of the Indian Paper Currency Act, 1905.

currency reserve helps to maintain confidence in the Gold Standard and the stability of exchange. And you were prepared, rather than allow our total stock of liquid gold to fall below 6,000,000*l.*, to refrain from renewing some of the short term investments of the Gold Standard Reserve, and to place their proceeds in your treasury. The necessity for such a step fortunately did not arise, and the conditions of the money market subsequently disposed you to diminish, if possible, rather than increase, our stock of ear-marked gold in England.

5 The purpose for which a currency chest was opened in London was described in Mr Brodrick's Despatch No 41 (Financial), dated 7th April 1905. The gold was to be held at the Bank of England "so as to be immediately available for the purchase of silver whenever the need for additional "coinage may arise". Your predecessor added that another advantage of storing the gold in England would be the possibility of using it to replenish the balances of the Home treasury against an equivalent transfer in India of rupees from our Treasury to the Currency Reserve. The latter function of the ear-marked gold was clearly meant to be subsidiary to its use, when required, for the prompt purchase of silver. Experience has justified this view, you have not yet been compelled to supplement your balances by currency gold whereas we have had to send you constant and urgent indentments for silver to meet the heavy demand for rupees in India. The emergency for which the currency chest was created continues to recur. The great activity in trade, and the hoarding of rupees which always accompanies general prosperity in this country, make it imperative that we should be able to effect large purchases of silver at short notice. The currency chest in London, which can be replenished as the State of the Treasury balances permits, would enable us to carry out those purchases without any delay or difficulty in providing the gold to pay for them. But if, at times when exchange is firm, we are debarred from using it for this purpose, it ceases, in our opinion, to perform the chief function for which it was established.

6 We readily accept your view that a large stock of gold in London has a valuable influence in steadying exchange. It is precisely with this object that the funds of the Gold Standard Reserve are invested in England in the most easily convertible forms of gold securities. We have frequently been pressed to hold a portion of the reserve in liquid gold, and this is an arrangement which may ultimately be feasible, though we are not convinced of the necessity for it under ordinary conditions, and we prefer, while the reserve is being built up, to let it earn all the interest it can. But, whether it is held in gold securities or in a liquid form, the Gold Standard Reserve is our first line of defence against a fall in exchange. So long as it is adequately maintained, the exact amount of gold in your currency chest has always seemed to us to be a matter of relatively minor importance. The public know that the currency gold in London is ear-marked for a particular purpose, that it is part of a fund reserved by law to ensure the convertibility of our note issues, and consequently that it is liable to considerable fluctuations. The Gold Standard Reserve, on the other hand, exists solely for the purpose of maintaining exchange, and is universally identified with that part of our currency policy. We should especially regret any decision to realise the securities of the Gold Standard Reserve in order to recoup your Treasury balances for the purchase of silver. In our opinion, a withdrawal of gold from the Gold Standard Reserve for this purpose would have a far worse effect on the public mind than a reduction in your stock of currency gold. The purchase of silver is a legitimate function of your currency chest, but it is entirely foreign to the objects of the Gold Standard Reserve.

7. On all these grounds, therefore, we trust that you will be able to agree with us that the currency gold in London may be freely drawn upon for the purchase of silver when we require it, being recouped, whenever convenient from the proceeds of extra Council Bills. We shall probably need considerable supplies of silver between now and next September. But we need not remind you of the strength of our gold position. You hold 6 millions for us in your currency chest. We have nearly 5 millions in gold in India, and though this amount will now diminish through your interception of gold in transit to us, it will rapidly grow again when you cease your purchases from Australia. Finally, the investments of the Gold Standard Reserve in



England have risen to about 12½ millions Their growth has been temporarily arrested by the building up of the silver branch of the reserve, but we expect that branch to reach its limit of 6 crores by the end of the current financial year, after which all further profits on our rupee coinage will go to increase the volume of the gold investments,

We have, &c,  
 (Signed) KITCHENER  
 DENZIL IBBETSON  
 H E RICHARDS  
 E N BAKER  
 H ADAMSON  
 J F FINLAY

Despatch from the SECRETARY OF STATE to the GOVERNMENT OF INDIA,  
 No 62, dated 26th April 1907

MY LORD,

I HAVE considered in Council your letter of 21st February 1907, No 66, explaining your views on certain matters relating to the Gold Standard Reserve and the Paper Currency Reserve

2 You express your regret at the decision conveyed in my telegrams of 5th and 7th December 1906, that a part of the additional funds required by you in the course of the last busy season, to enable you to meet bills and telegraphic transfers, should be provided by a temporary loan from the silver portion of the Gold Standard Reserve You would have preferred that I should provide for the necessary addition to your Treasury balances by transferring gold in London to the Currency Reserve, thus enabling rupees to be taken from the Indian portion of that reserve

3 Before dealing in detail with your objections to the course actually pursued, I wish to remind you of the circumstances in which it was decided to adopt it in December last The London money market was at that time suffering from severe stringency, and it was a matter of direct and immediate importance to India that this should not be increased, since guaranteed debenture bonds amounting to 1,795,100l were to fall due between 31st December 1906 and 18th February 1907, of which it was very desirable that 1,374,600l should be renewed The chance of the renewals being effected on favourable terms depended on the state of the money market, and would have been prejudiced if the market had been disturbed by a transfer of gold from the reserve of the Bank of England to the Paper Currency Reserve The advantage of avoiding such a transfer was therefore considerable, and it appeared to me that the only counterbalancing disadvantage was that mentioned in my Despatch No 135, of 16th November 1906, viz, that in the published accounts of the Reserve its assets would for a time be shown as consisting partly of a debt due from your Government Neither your resources nor the conditions affecting Indian trade could in any way be unfavourably affected After careful consideration, I came to the conclusion that the advantage of taking a loan was far more important than the one disadvantage

4 You now submit that the course pursued was open to objection on various grounds other than the one which I have mentioned

5 One ground of objection is that to take a loan was at variance with the objects for which the Gold Standard Reserve was established, and involved a departure from the procedure mentioned in your Letter of 26th April 1906, No 144 These statements are, of course, correct, but they take no account of the fact that, since the establishment of the Reserve in 1901, it has been decided, in the light of experience, to make important modifications in the purposes for which it is to be used and (as a necessary consequence) in the procedure to be followed The original object of the Reserve was to provide for a reduction, temporary or permanent, of the amount of rupee currency in circulation when this should be required to prevent a fall in exchange The first change was made when it was decided last year, on the recommendation of the Government of India and with my complete concurrence, as expressed in my Despatch No 57 of 25th May 1906, to hold a portion of the fund in

silver, to be used for an entirely different purpose, viz, for rapidly increasing the rupee circulation at times of trade activity. It was then intended that the Reserve, whenever a withdrawal took place from the silver portion, should be simultaneously replenished by the transfer of gold from the Paper Currency Reserve, and the procedure that was contemplated (as described in your Letter of 26th April 1906) was in accordance with this intention. A second change was made when it was decided in my Despatch of 16th November 1906, No 135, in accordance with a recommendation made by you, that in case of need a loan should be taken from the silver portion. This necessarily involved a modification of the procedure mentioned in your Letter of 26th April 1906. I fully recognised this fact at the time, and I assumed that it was also recognised by Your Excellency's Government. These successive alterations were made after the most careful consideration, and, in my opinion, were very valuable improvements. It seems to me that no valid objection to taking advantage of them can be founded on the fact that this cannot be done without a departure from what was contemplated before their introduction.

6 The second ground of objection to the course which I decided to adopt is that it is a variation from your currency policy "which may seriously weaken it, and would certainly be liable to general misconstruction." I should regret doing anything likely to create apprehensions in the public mind regarding the stability of the currency system, but it appears to me that, if they exist in the present instance, they are without justification. I could indeed understand that the decision arrived at in May 1906 to hold a portion of the Gold Standard Reserve in silver might be represented as affecting the stability of the currency system, since one result of it was the temporary suspension of the accumulation of the sterling fund which is kept up for the support of exchange. But that decision having once been arrived at and carried into effect, I am unable, after the most careful consideration, to understand how the stability of the currency can be regarded as having been threatened by the further decision to use the silver portion of the reserve, at a time of great demand for rupees, in a manner which left absolutely unaffected the existing safeguards against a fall in exchange.

7 I understand that your practical recommendation for the future is that loans shall not be taken from the Gold Standard Reserve except at a time when the Home Treasury balances are so low that it is impossible for me to transfer gold to the Currency Reserve in this country. I shall, of course, bear your wishes in mind on any occasion when the method of replenishing your balances has to be decided, but I am unable to accept the suggested restriction as one which should invariably be observed. I am of opinion that the choice between "earmarking" gold and borrowing from the Gold Standard Reserve must in each case depend on the circumstances of the time.

8 On the other matters dealt with in your letter I am substantially in agreement with you.

9. In paragraph 2 you express your objection to a suggestion made in my Despatch No 135 of 16th November 1906, viz, that, when silver is borrowed from the Gold Standard Reserve, sterling securities should ordinarily be purchased in its place. Your objection is largely based on your views as to the circumstances in which a loan from the Reserve is justifiable, but, in spite of my inability to accept those views, I am willing to agree that, in the event contemplated, no investment shall be made, and the transaction shall be treated as a loan pure and simple, to be repaid from your balances when they have been replenished by the purchase of silver or otherwise.

10 In paragraph 7 you urge that the gold held in the Currency Reserve in this country may be freely used for the purchase of silver when required. I accept this view, subject to the qualification that it is ordinarily desirable that the combined stock of gold held in England and India (and in this connection the distinction between the two portions is of small importance) shall not be allowed to fall unduly low. The remarks on this subject in my Despatch No 85, of 20th July 1906, were made in reply to your suggestion that the total, which had fallen in five months from about 12,000,000*l.* to about 7,000,000*l.*, could without disadvantage be allowed to fall as low as

3,500,000*l* Holding the opinion, which you evidently share, that it is necessary to have regard to the effect on the public mind of your currency transactions, I thought that it was desirable to avoid so large a decrease in a comparatively short period, and that the realisation of a portion of the securities of the Gold Standard Reserve would be the less of two evils. There must always be room for difference of opinion when a choice has to be made between alternatives of this kind, and it is satisfactory that the building up of the silver portion of the Gold Standard Reserve has considerably reduced the probability of the recurrence of a situation necessitating such a choice.

I have, &c,  
(Signed) JOHN MORLEY

INTERIM REPORT of the COMMITTEE on INDIAN RAILWAY FINANCE, &c  
(Submitted in June 1907)

The Committee have considered the letter from the Government of India, No 28 (Railway), dated 25th April 1907, proposing the formation of a central reserve of wagons for use on railways in India, which has been referred to them by the Secretary of State for India. In view of the urgency attached to the matter by the Government of India, the Committee have judged it advisable to deal with the letter without delay, and they accordingly submit the following recommendations.

The proposal of the Government of India, briefly stated, is that, in addition to the expenditure provided for in the Railway Programme, a sum of 3,000,000*l* should be spent within the next two or three years in the purchase by the State of 12,000 wagons, to be held as a reserve from which the loan of vehicles to any railway requiring additional stock could be made. The reasons given for this proposal are that it has been demonstrated that the Indian railways are at present unable to carry traffic which is offered, that it will be some time before each railway can be fully equipped to meet normal demands, and that it is moreover desirable to provide against extraordinary demands for wagons, which may always be expected to arise at different seasons.

Enquiries already made by the Committee confirm the conclusion of the Government of India that the existing equipment of Indian railways is inadequate, and they consider it essential that efforts should be made to improve the position as rapidly as possible. But the following reasons prevent them from recommending the adoption of the particular method proposed by the Government of India: (1) A central reserve of wagons would be a new departure, and it is therefore probable that before it could be established and fully utilised, delay would occur owing to the necessity for settling important questions requiring mature deliberation, (2) the Committee have reason to believe that the Railway Companies would prefer that any extra funds which can be made available for railway purposes this year should be allotted to the railway administrations in accordance with their requirements. The Committee are of opinion that the latter course is the more advantageous and recommend its adoption.

With regard to the method by which it may be possible to obtain additional funds beyond those already arranged for under the Railway Programme, it is evident, from figures which have been placed at the disposal of the Committee by the Financial Department of the India Office, that it will not be safe to anticipate that the sum which can be borrowed by the Secretary of State for India in this country during the present year is capable of being increased beyond the amount entered in the Budget estimate, viz., 7,675,000*l* (leaving out of account the liability in respect of debentures for 2,500,000*l* maturing during the year). But they have had under consideration the question of the advisability of using a portion of the current year's profit on the coinage of silver for capital expenditure on Indian railways instead of investing it in British Government securities.

The object of the Gold Standard Reserve, to which the profit on coinage is credited, is to enable the Government of India and the Secretary of State to meet their sterling obligations in the event of a falling off in the demand for Council Bills. This Reserve at the present time consists of sterling

securities of the market value of 12,310,629*l*, together with a sum of six crores of rupees (equivalent to 4,000,000*l*) which is held in silver in India to meet any sudden demand for coinage. In addition to the Gold Standard Reserve, there is a large amount of gold (11,066,000*l*, of which 7,705,000*l* is held in London and 3,361,000*l* in India), in the Paper Currency Reserve, which could be applied to the same object. Apart, therefore, from the six crores of rupees in silver, there is at the present moment a fund of upwards of 23,000,000*l* in sterling securities and gold bullion which could be drawn upon in case of necessity.

The interest received on investments on account of the Gold Standard Reserve between the present time and the 5th January 1908 will, it is estimated, be about 270,000*l*, while the profit on the coinage of silver up to the 31st December next is provisionally estimated at 1,850,000*l*. The addition to the Reserve by the beginning of next year would, therefore, in ordinary course amount to considerably over 2,000,000*l*, bringing up the total amount of gold and sterling securities held in the Gold Standard Reserve and the Paper Currency Reserve to more than 25,000,000*l*.

Having regard to the satisfactory position which the gold reserves have now attained, as shown by the foregoing figures, the Committee are of opinion that it could not be regarded as imprudent to invest 1,000,000*l* of the profit on coinage for the present financial year in Indian railways, and they therefore recommend this course to the Secretary of State.

It is a matter of urgency that any additional funds which are available should be immediately placed at the disposal of the railways, and the Committee would therefore suggest that a telegram be sent to the Government of India, in reply to their letter of the 25th April last, informing them that the consideration of the question of the creation of a wagon reserve is postponed for the present, but that a further sum of 1,000,000*l* may be at once allotted to the several railways in such proportions as the Government may deem desirable, either for the provision of additional rolling stock or for the improvement of open lines to enable them to deal with traffic more expeditiously, thus bringing the total allotment for 1907-8 up to 10,000,000*l* sterling. If this is done, the Government of India should be informed that the additional million which it is decided to allot will be supplied from the profit on coinage during the current year, and will be treated in account as an investment for the Gold Standard Reserve.

(Signed) J. L. MACKAY (*Chairman*)  
W. R. LAWRENCE  
F. O. SCHUSTER  
D. M. BARBOUR  
L. ABRAHAMS

6th June 1907

Telegram from SECRETARY OF STATE to VICEROY, Commerce and Industry Department, dated 11th June 1907

Your Railway letter No 28, of 25th April 1907. I referred your proposals to the Railway Committee mentioned in my Despatch No 57, Railway, of 24th May last. They recommend that the sanctioned capital outlay for 1907-08 be increased by an additional 1,000,000*l* to be spent on rolling stock and open line improvements, subject to the following conditions —

- (1) That this extra grant is not used to form a reserve of wagons, but allotted to railway administrations, as this course will enable stock to be brought more expeditiously into use, and will be more acceptable to companies.
- (2) That the money is provided from the profit on coinage in 1907-08, the amount being shown among other balances of the Gold Standard Reserve in Account No 91A of the Finance and Revenue Accounts.

The reasons for the second condition are, firstly, that the amount still to be borrowed in 1907-08 for expenditure already sanctioned exceeds 4,000,000*l*, and it must be regarded as impracticable to borrow more, and, secondly, that no risk to the position of exchange is involved by the proposal.

in view of the present amount of the Gold Standard Reserve, and of the additions estimated to be made to it this year, see your telegram of 18th May last, and of the large sum held in gold in the Paper Currency Reserve

If you agree generally with these recommendations, which I am in favour of accepting, you may at once proceed with the allotment of the money to the Railway Administrations

Telegram from VICEROY, dated 24th June 1907

Please refer to your telegram dated the 11th June 1907, regarding rolling-stock. Respecting the Committee's first condition, we greatly prefer the formation of a central reserve of wagons to the distribution among railway administrations of an extra grant. Reference is invited to remarks on rolling-stock in Financial Statement, 1906-07, Appendix 3, in addition to reasons explained in our Despatch, dated 25th April, paragraph 6. To meet seasonal demands for rolling-stock lasting a short time, the creation of a wagon reserve will be more efficacious. Seasonal shortages will not be permanently provided against by the distribution of additional rolling-stock, whereas a permanent solution will be found in a central reserve worked, as we intended, not as a part of current requirements, but as a reserve. Reconsideration of this first condition is very strongly urged, but if you still adhere to it, we will agree.

Great importance is attached by us to the supply during the current year of extra rolling-stock to the amount of 1,000,000*l*. Should distribution be decided upon, please consider whether the more expeditious method would not be to carry out Indent No 14, Railway, enclosed with Railway letter of 25th April, No 95, and to distribute to railways on completion, rather than to allot grant to administrations and leave them to arrange by "repeat" orders and otherwise for the supply of rolling-stock required. We wish you to follow the course you consider quickest in this respect. On receipt of your reply, distribution of extra grant among railway administrations will, if necessary, be telegraphed.

Regarding the second condition, we expect to address you soon proposing that the Gold Standard Reserve investment from profits on coinage shall be discontinued on these investments reaching 20,000,000*l*. We are of opinion that even if we could agree to your proposal, it will be necessary, having regard to the public criticism on formation of silver branch of the Gold Standard Reserve, to inform the public of the decision and to give the reasons for it. We are, however, wholly opposed, until the 20,000,000*l* figure is reached, to any diversion of the profits on coinage from their essential object, namely, the building up of the Gold Standard Reserve until it is sufficiently large to be a reasonably certain protection against the danger of a fall in exchange. Security of our currency policy is, in our emphatic opinion, of paramount consideration and should on no account be sacrificed even to the present necessity of the railway programme. Increase of sterling borrowings is, you say, impracticable beyond the four millions which you still require this year. We would, however, observe that if an issue of another million in India Bills or Stock were made, and the price of issue thereby lowered by three points, the total loss would only amount to 30,000*l*, and that this amount would be exceeded on a total Home remittance of 20,000,000*l* if rate of exchange fell by  $\frac{1}{16}$ *d*. In the event of the balance of trade becoming endangered and an ample margin in the Gold Standard Reserve not available to fall back upon, the rate of exchange might easily fall by much more than  $\frac{1}{16}$ *d*.

Telegram from SECRETARY OF STATE to VICEROY, 2nd July 1907

Please refer to your telegram regarding rolling-stock dated the 24th of June. I have decided, after considering the matter most carefully (1) regarding the distribution of rolling-stock, to adhere to the first condition as contained in my telegram to you dated 11th June, and (2) that unless funds are provided from the Gold Standard Reserve, no extra expenditure can be incurred. It is impracticable to continue further borrowing, not in view of an increased rate of interest or discount, which may be disregarded as of no

importance, but for the reasons which I give below. Investors who purchased India Stock in May last would be injured by a second issue in the current financial year, and such issue would prejudice our opportunity of borrowing sufficient for our needs in 1908-09 and in the following years. In view of the condition of the London investment market and its consequence in compelling His Majesty's Government to postpone certain loans which they had in contemplation, it is practically certain, as regards India Bills, that a considerable amount of these will have to be issued in order to make up the deficiency which has arisen in consequence of the impossibility of issuing Railway bonds or debenture stocks to the amount which had been arranged for in the Budget. To increase the amount of these bills that will have to be issued would be imprudent in the highest degree.

In regard to the limit of borrowing in London, I must ask you to accept my views, just as I accept yours regarding the amount of borrowing to be undertaken in India. Unless further capital, as to the urgency for which I agree with Your Excellency, can be provided from the Gold Standard Reserve, additional expenditure must be abandoned.

The danger, which you allege, of a fall in the rate of exchange I regard as illusory, having regard to the present conditions of trade, the amount of securities in the Gold Standard Reserve, and of gold in the Currency Reserve. Strength will be afforded to the exchange position by the increased facilities for the carriage of productions. The maintenance of the value of the rupee is secured by the ample provision already existing, but, until the amount of 20,000,000*l* in sterling securities is reached I am quite willing to continue adding one-half of the profits on coinage, together with all the interest on the investments now existing, to the Gold Standard Reserve.

Having regard to the considerations given above, I shall take the necessary steps to comply with the indent of the 25th April 1907, No. 14, Railway, and shall distribute in accordance with your recommendations.

Early steps will be taken to announce this decision /

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QUESTION IN PARLIAMENT, 9th July 1907.

Sir EDWARD SASSOON (Hythe) I beg to ask the Secretary of State for India what is the present position of the Gold Standard Reserve, and whether he intends to continue indefinitely the practice of adding to it the whole of the profit on coinage.

Mr MORLEY Up to 31st March 1907, 12,518,513*l* derived from the profits on coinage and from interest had been invested in British Government securities on behalf of the Gold Standard Reserve and 4,000,000*l* was held in rupees in India. The profit to be realised in 1907-08 will, it is anticipated, be considerable, though the exact sum cannot of course be stated at present. In view of the amount of the reserve and of the large stock of gold (about 10,500,000*l*) held by the Government of India and the Secretary of State in Council in the Paper Currency Department and elsewhere, I have decided that the present practice of adding to the Reserve the whole of the profit on coinage and of the interest on securities already purchased may be modified. From the present year and until the Reserve reaches 20,000,000*l* one-half of the profit on coinage together with the interest on securities will be added to the Reserve, and the other half of the profit will be used to supplement the funds available for capital expenditure on Indian railways. This decision, which is based on a recommendation made by the Departmental Committee on Indian Railways, has enabled me to sanction an addition of 1,000,000*l* to the programme of capital expenditure for the present year. The additional expenditure will be devoted to improving the equipment of open lines.

Sir EDWARD SASSOON What amount will be available for increased railway expenditure?

Mr MORLEY. I cannot say off-hand.

Letter from the GOVERNMENT OF INDIA to the SECRETARY OF STATE,  
No 296, dated 8th August 1907.

SIR,

We have the honour to refer to the telegraphic correspondence\* ending with your telegram of the 2nd July on the subject of the purchase of additional rolling-stock, and also to your announcement in the House of Commons on the 9th July regarding the employment of part of our coinage profits for expenditure on Railways

2 As intimated in our telegram of the 24th June, we intended to address you, reviewing the present position of the Gold Standard Reserve and the attitude of the commercial public in regard to it and submitting for your consideration the following definite proposals —

- (1) That the investments of the Gold Standard Reserve should continue as at present until they reach a total of 20,000,000*l*,
- (2) That, when that figure is reached, the investment of profits on new coinage should cease, but the investment of the interest on the securities previously purchased should continue until the total investment reaches 27,000,000*l*,
- (3) That, when that figure is reached, the question of further accumulation should be specially considered,
- (4) That the funds made available by stopping the investment of the profits as above, should be used in reduction of our borrowings for railway and irrigation expenditure

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

4 We forward for your information a copy of a letter which we have received from the Chamber of Commerce, Bombay, regarding the policy on which you have determined, and of the reply which we have sent to that body

We have &c,  
(Signed) MINTO.  
KITCHENER.  
H E RICHARDS  
E N BAKER  
C H SCOTT  
H ADAMSON  
J F FINLAY  
J. O MILLER

Enclosure No 1

No 587, dated 11th July 1907.

From J B Leslie-Rogers, Esq, Secretary, Bombay Chamber of Commerce,  
to the Secretary to the Government of India, Finance Department

I am instructed by my Committee to address you with reference to information that has been published that the Railway Board is to receive another million sterling this year for the purchase of Rolling Stock, and that this amount will be taken from the profits on coinage accruing this year which otherwise would have gone to swell the investments in the Gold Standard Reserve

2 Although a further increase of Rolling Stock is most necessary, my Committee cannot but view with very grave apprehension the decision just arrived at that, as stated on the 9th instant in the House of Commons by the

\* Your telegram dated the 11th June 1907. Our telegram dated the 24th June 1907. Your telegram dated the 2nd July 1907 (pages 157-8)

Right Honourable the Secretary of State for India, the funds for this purpose are to be provided from the profits on coinage. These, it has always been understood, as recommended by the Indian Currency Commission of 1898, were not to be diverted to any channel other than that of the Gold Standard Reserve, which was formed to guarantee our silver rupees on the basis of an exchange of 1s 4d, and although a fairly large sum has been accumulated and invested for this purpose, my Committee do not consider that a point has yet been reached which guarantees absolute safety as regards the currency, or which would warrant even a temporary cessation of payments to the fund from the only source from which it can be augmented.

The question of diverting payments from the Gold Standard Reserve is not one, it appears to my Committee, that should be considered merely from the point of view of the position at the moment being satisfactory and of there being no likelihood for the present of the fund already invested being brought into use. It is, they hold, a fund which guarantees the determination of the Indian Government to maintain the gold value of the Rupee, and thus being so it seems to my Committee as only too likely that any deviation from this purpose, and the uncertainty that will always afterwards exist even after the Reserve has reached 25,000,000*l* that a further large sum may be allocated at any time, and locked up in investments which are not liquid, will cause the public, not only in this country but in England also, to regard the currency policy of Government as on too unstable a basis, and if this should be so, confidence in the future may be shaken and the loss of credit to the country would become a very serious matter. My Committee do not propose at this juncture to deal with the possibility of further allocations from this fund after a total of 25,000,000*l* has been reached for any object which may appear to Government of an urgent nature. They merely desire to point out that the Gold Standard Reserve Fund was formed for a definite object, and that until the invested portion of this Reserve has reached a very much larger figure there should in their opinion be no attempt on the part of Government to divert funds for other purposes, however urgent such purposes may be.

Enclosure No 2

No 4927-A, dated 8th August 1907

From J. S. Meston, Esq., ICS, Secretary to the Government of India, in the Finance Department, to the Secretary to the Bombay Chamber of Commerce.

I am directed by the Governor-General in Council to reply to your letter of 11th July, in which the Committee of the Bombay Chamber of Commerce criticise the decision of the Government to take from the profits on coinage accruing this year the additional million sterling which it is proposed to spend on the purchase of rolling stock. The exact decision was that, from the beginning of the current financial year and until the sterling investments of the Gold Standard Reserve reach a total of 20,000,000*l*, the profits on coinage, which have hitherto all been invested in sterling securities, shall be so invested in the future to the extent of one-half only, the other half being appropriated for railway capital expenditure, and that the whole of the interest on the investments will continue to be invested in sterling securities as hitherto.

2. The Gold Standard Reserve was constituted in order to provide a fund to be used in time of need to prevent exchange from falling below 1s 4d, per rupee. Before its formation other measures having the same object, such as the accumulation of a stock of gold, had been adopted, and the establishment of the Gold Standard Reserve was in addition to these previous measures, and not in substitution for any of them. It was decided that all the profits on coinage should be invested in sterling securities, to be sold out in the event of it being necessary to combat a tendency towards a fall in exchange. Hitherto no specific limit has been fixed for the amounts of the sterling investments; but it has for some time past been recognised that the investments ought not to continue indefinitely, and that they should cease



when the amount shall be considered, in combination with the effect of the other measures adopted for the support of exchange, to be sufficient to secure with all reasonable safety the object for which the fund was created

3 The Government of India gather from your letter that the Committee of the Chamber of Commerce accept as correct the description of the nature and scope of the fund given in the preceding paragraph. The only point of difference between the Chamber and the Government is on the question whether or not the limit mentioned has been reached. Your Committee state that they "do not consider that a point has yet been reached which guarantees absolute safety as regards the currency." The Government of India entirely agree with the Chamber that the question should not be considered merely from the point of view of the position at the moment being satisfactory and of there being no likelihood of the fund being at present brought into use, and they accept your description of the fund as one "which guarantees the determination of the Indian Government to maintain the gold value of the rupee." The mention of the sum of 25,000,000*l* in your letter is not explained, but it is surmised that the Chamber consider that to be the point beyond which investments need not be continued, if that is so, the Government of India find difficulty in understanding the references made in your letter to uncertainty connected with further allocations from the fund after that total is reached.

4 I am directed to invite the attention of the Chamber to the references to the subject made in the Budget Debate by the Hon'ble Mr Gokhale, the Hon'ble Mr Finlay and the Hon'ble Mr Baker. Mr Baker in his speech said that "the time is approaching when it will be necessary to consider whether any, and if so, what limit should be put on the amount of the invested portion, and this question we shall take up without delay. Until that has been done, it will be premature and possibly embarrassing to make any public declaration of policy." Since this statement was made, the question has been under consideration by the Government of India and the Secretary of State, and it was referred by Mr Morley for the opinion of the Committee recently appointed to deal with Railway finance, of which Sir D Barbour is a member. The conclusions arrived at were, that ample provision for maintaining the value of the rupee already exists, that, in view of present trade conditions, of the amount of the sterling securities held in the Gold Standard Reserve, and of the amount of gold in the Currency and in the Treasuries, any danger of a fall in exchange is illusory, but that, as the question is one which cannot be determined with mathematical precision and as there is room for difference of opinion, one-half of the future profits on coinage shall continue to be invested in sterling securities until the total of the investments amounts to 20 millions sterling.

5 In explanation of these conclusions I am to invite the attention of the Chamber to the fact that the investments of the Gold Standard Reserve are not the only provision which the Government of India have made for use in the event of it being necessary to check a tendency to a fall in exchange. The Government also hold in the Currency Reserve and in the Treasuries a large stock of sovereigns. These amount now to over 10,000,000*l*, and that stock of gold is equally available for the purpose of preventing a fall in exchange, notwithstanding that it might be brought into operation in a different manner from the Gold Standard Reserve itself. The amount of the sterling investments of the Gold Standard Reserve is nearly 13,000,000*l*. The Government have therefore available for the purpose of combating a fall of exchange a sum of about 23,000,000*l*. It has been held by good authorities that the sum of 20,000,000*l* is enough to give a reasonable guarantee of safety against the risk of a fall in exchange. The provision already made exceeds this amount by about three millions. In view, however, of the fact that there is room for difference of opinion as to the exact amount of the limit, and as it is better in so important a matter to err on the side of caution, the Government decided to continue the investments to the extent of half the future profits on coinage until the amount in the Gold Standard Reserve alone reaches 20,000,000*l*. When that limit is reached the total provision against the risk under consideration will amount to about 30,000,000*l*, if the stock of sovereigns remains at its present level.

6 In conclusion I am directed to say that in ordinary circumstances the Government of India would not have adopted the decision above described without first publishing their proposals and inviting the comments of Chambers of Commerce and other public bodies. To have adopted this course on the present occasion, however, would have involved consequences which, it is believed, could not have commended themselves to the commercial public. The urgent demands for additional rolling stock had led the Government of India to recommend to the Secretary of State that a large expenditure should be incurred in the next few years on the purchase of wagons, in addition to the amounts provided in the railway programme published with the Financial Statement. The Secretary of State accepted the Government of India's view as to the urgency of this expenditure, and sanctioned an extra allotment of one million for this purpose in the current year. The state of the London money market, however, rendered it inexpedient to raise that amount by sterling borrowing. It was, therefore, necessary either to postpone the increased expenditure on wagons or to dispense with the consultation of public opinion in India on the question of the use of the Gold Standard Reserve, because of the delay which would have been involved. The decision was to accept the latter as the lesser of the two evils.

7 I am directed to express a hope that the Bombay Chamber of Commerce, in view of the explanations given in this letter, will come to the conclusion that the decision which they criticise will not involve the evil results which they fear.

Despatch from the SECRETARY OF STATE to the GOVERNMENT OF INDIA,  
No 131, dated 20th September 1907

MY LORD,

I HAVE considered in Council your Excellency's letter in the Finance Department, No 296, of the 8th August 1907, regarding the limit to be assigned to the accumulation of the Gold Standard Reserve and the purposes to which, after a certain limit has been reached the profits on the coinage of silver, or a part of them, should be applied.

2 I am glad to note that up to a certain point your Government and myself are in substantial agreement on this question. We are agreed that, after the value of the sterling investments of the reserve has reached a certain limit, their further accumulation may be restricted, and that the funds thus made available may properly be applied to the reduction of borrowings for railway expenditure. We are further agreed that until the value of the sterling investments has reached 20,000,000*l.* the whole of the interest on them shall continue to be invested in the same manner. I note that you accept my decision that half the profits of coinage shall henceforth be used for capital expenditure on railways, though, I regret to observe, it is opposed to the views of some of the members of your Government, who would not have recommended that any part of those profits should be so employed until the 20 million limit has been reached.

3 The profits from the coinage of silver have averaged in the last three years about 3,000,000*l.* per annum. Should they continue at approximately the same rate, and should the values of the existing investments of the Reserve be not materially altered, the effect of my decision will be to postpone by somewhat less than two years the date by which the limit of 20,000,000*l.* will be reached.

4 With reference to paragraph 2 (2) of your letter, I propose that the course to be followed, after the above total has been reached, should be reserved for further consideration when the value of the investments nearly approaches that limit.

5 I take this opportunity of forwarding for the information of your Government, a copy of the interim Report\* of the Committee on Indian Railway Finance.

I have, &c.,  
(Signed) JOHN MORLEY

\* See p 15a.

Telegram from VICEROY, dated 20th November 1907

Financial Department We have been requested by the Exchange Banks to issue telegraphic transfers on you at the rate of 15 rupees to the sovereign. In reply we have informed them that before giving any answer we must refer the matter to you. The request, in the present state of Treasury balances, could only be met by drawing on Currency gold in London. This would, we consider, be contrary to the purposes for which the gold is maintained, and therefore open to strong objection, especially as it would weaken our capacity to remit to you for Treasury purposes in the event of exchange continuing weak. Our advice therefore is that we may be authorised to refuse the application.

Telegram from SECRETARY OF STATE to VICEROY, dated 20th November 1907

Telegraphic transfers Your telegram of the 20th instant. You have my authority to inform exchange banks that you are unable to accede to their application.

Telegram from SECRETARY OF STATE to VICEROY, dated 21st November 1907

Please inform me if it is the case, as reported here, that you have informed the Exchange Banks that you will not give gold for export, while you continue to give it for internal purposes. In my opinion it might be well to ascertain from the banks how much gold they desire to take, and, if the amount is not excessive, to let them have it. As a result, the rupee currency would be contracted by the withdrawal of gold, and the renewal of a demand for Council Bills would thereby be hastened. The amount of gold to be withdrawn from currency here would thus be reduced, and Government stock of gold would, as ultimate result, remain unaltered. I am aware that gold bought from you at 1s 4d the rupee may be remitted to Egypt or London and drawn again at lower rate, and that Banks would make this profit. But the amount of gold shipped will probably not be large, and confidence in the exchange position might tend to be restored by what I have suggested. I shall be glad if you will send me your reply as early as you can.

Telegram from VICEROY, dated 27th November 1907

Your Financial telegram of 21st instant. Gold

(1) Gold for export has not been refused, but the issue of gold in one day to any individual has been restricted by us to 10,000*l*. Up to this daily limit, banks in Bombay are taking gold steadily, over 100,000*l* having been drawn last week, and another 100,000*l* yesterday and to-day. British Postal Orders for 10,000*l* and other large sums have also been bought by certain banks, and the question whether a limit should not be imposed on the issue of such orders is now under consideration.

(2) In accordance with your directions the banks have been asked to state what amount of gold they would take, if we agreed to make it freely available. In the opinion of the Calcutta banks the outside limit of banking requirements for whole of India would be 1,000,000*l*. They advise that if Government's intention to give this amount were declared, only a relatively small quantity would actually be taken. Views similar to those suggested in your telegram are held by the Bombay banks, they decline to furnish any estimate of the requirements, but think any large bullion export is improbable, since the export season is beginning. Their argument is that confidence would be restored by the immediate issue of Government gold at 15 rupees, and urge that, for the purpose of steadying exchange, it is the duty of Government to use its reserves freely.

(3) Although the banks formerly asked us for telegraphic transfers, they are now agreed that they would prefer local issues of gold. The general public, particularly natives, would find the latter course more intelligible, and large internal withdrawals of gold for hoarding would be prevented.

(4) A considerable part of our gold balance in India, which is now under 3,500,000*l*, is scattered in Currency offices up country, and for internal needs we must maintain a substantial margin. Up to 1,000,000*l*, however, we could arrange to issue freely, but in giving more we should find great difficulty. We feel very strongly, while prepared to meet your wishes to this extent, that the position will be serious if further demands are made, and we are forced to discontinue issues. The only resort would then be the issue of transfers on you, and how far that method could be continued to meet trade demands depends upon your own requirements and the prospect that Council drawings will be resumed at an early date.

(5) Improvement in exchange to-day has resulted from your release of currency gold yesterday.

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Telegram from SECRETARY OF STATE to VICEROY, dated 28th November 1907

Your Financial telegram of 27th instant. After discussing the situation with the Exchange Banks I offer the following suggestion for your consideration, viz, that, in addition to the relief that you are giving by issues of gold, you should also, in order to give confidence and steady exchange, at once issue a notice inviting tenders for telegraphic transfers of 250,000*l* on London, at early date, at rates not exceeding 1*s* 3 $\frac{3}{4}$ *d* the rupee. 10,000*l* should be minimum amount of each tender. I shall, if you agree, meet any transfers that may be sold by withdrawing gold from Currency. You might also intimate that you will from time to time, until further notice, call for similar tenders. The demand for gold should tend to be diminished by this measure. Kindly let me know by telegraph if these proposals meet with your concurrence.

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Telegram from VICEROY, dated 3rd December 1907

Your Finance telegram of the 28th November. Sale of transfers on London and issue of gold. Steady improvement in exchange is in progress and telegraphic transfers are being sold to-day by Calcutta banks at 1*s* 3 $\frac{3}{4}$ *d*. A large part of the gold taken for export at Bombay is returning to us. Adoption of the course suggested by you, therefore, appears to us to be unnecessary at present, and though it is approved by the banks consulted by us here, it is apparently rather as a precedent than as a necessity in the present situation that it would be welcomed by them. With a view, however, to possible future fall in exchange we should be glad to keep proposed notice in reserve, with power (unless you should prefer, if the necessity arises, to offer telegraphic transfers at a fixed rate of 1*s* 3 $\frac{3}{4}$ *d*) to issue it on the first appearance of serious weakness. The public would find a fixed rate more intelligible than the invitation of tenders and tenders at a lower rate would not in any case be expected or welcomed by us. We should, of course, consult you before drawing on you in excess of whatever limit you may decide to be convenient, but we are inclined to think that it would be better not to specify any particular amount for sale.

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Telegram from VICEROY, dated 5th December 1907

Sale of transfers on London. Please let us know whether we shall receive orders on our telegram of the 20th November, or whether we may take it that the proposals therein made are accepted. If you concur in the proposals, it would, we consider, be well for us to inform the banks privately of our power to notify telegraphic transfers, and of our intention to use that power if exchange shows any signs of serious weakness. Since our last telegram there has been a steady improvement in the position, and there is now no need for present action.

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Telegram from SECRETARY OF STATE to VICEROY, Finance Department,  
dated 5th December 1907

Exchange I concur in view expressed in your telegram of 3rd instant that it is not necessary now to offer transfers on London. I am of opinion that, if in future there should be a serious drop in exchange, it would be preferable to adopt procedure similar to that proposed in my telegram of 28th November, rather than to offer to sell at fixed price without specifying amount. Adoption of latter method might entail inconvenient choice between excessive drain on my resources at very short notice and a sudden suspension of the offer. I will reply, as soon as possible, to your telegram of to-day regarding private communication to Banks.

Telegram from SECRETARY OF STATE to VICEROY, Finance Department,  
dated 6th December 1907

Your telegram of yesterday. Exchange Banks may be informed that, in event of serious weakness in exchange, Government contemplates offering for tender, in India, sterling exchange on London. The procedure to be adopted would follow that indicated in my telegram of 28th ultimo. Banks should be told that this communication is made because you recognise advantage of letting them know your views and intentions, but that it does not convey a definite pledge, and that Government reserves discretion to act as it thinks best in any future case on consideration of all circumstances then existing.

Telegram from VICEROY, dated 7th December 1907

Exchange Your telegram of the 5th December. There has again been a slight fall, and we shall offer telegraphic transfers, to a maximum limit of quarter of a million pounds sterling, if the rate falls below  $1s\ 3\frac{3}{4}d$ . Details of all transfers granted will be telegraphed to you by the Comptroller-General. As regards the method of allotting the transfers, we request reconsideration of your decision. There appears to be no advantage in asking for tenders. If, as would be probably be the case, all the tenders were at the highest rate, it would be useless, and if lower rates were offered by the tenderers in competition with each other it would be mischievous. Our aim is to encourage the tenderers to offer the highest rate which we are willing to accept, and this end could be best obtained, and confidence inspired, by offering the transfers at a fixed rate of  $1s\ 3\frac{3}{4}d$ . The transfers would be allotted in order of application.

Telegram from SECRETARY OF STATE to VICEROY, Finance Department,  
dated 9th December 1907

Telegraphic transfers on London. I approve of your proposals in your telegram of the 7th December. Subject to the minimum of 10,000*l.*, transfers should be in multiples of 1,000*l.* In order that I may arrange to meet transfers, I shall be glad to know, as soon as possible, when offer will be made.

Telegram from VICEROY, dated 13th December 1907

Please refer to your telegram of the 9th December. We are unable at present to say when an offer of telegraphic transfers on London will be made, as the rate of exchange remains steady at  $1s\ 3\frac{3}{4}d$ , and, until it drops below that figure, no action is proposed. When it is actually necessary to make the offer you will be at once informed. We shall, when making the offer, announce that the transfers will be available in Bombay, Calcutta, and Madras, and advices of their grant may therefore be expected not only from the Comptroller-General, but also from the Accountants-General at Madras and Bombay.

## Telegram to VICEROY, dated 25th February 1908

Rate of Exchange Your telegram of 13th December Having consulted with Exchange Banks, I have come to the conclusion that it will be better for you to sell bills on London at  $1s\ 3\frac{2}{3}d$ , if the rate of exchange falls again, rather than telegraphic transfers The Exchange Banks state that bills will do equally well for them The amount to be sold will necessarily depend on circumstances, and cannot be decided in advance, a bill must not be sold for a smaller amount than 10,000*l* Please communicate the above information to the Exchange Banks The lowest rate which can be fixed for the bills is  $1s\ 3\frac{2}{3}d$  as, if it were lower, Banks would prefer shipping sovereigns If at any time you are satisfied that a sale would be useful for strengthening exchange, you may sell 250,000*l* worth of bills without previously consulting me Of course, when you sell them you will telegraph to me When you have informed the Exchange Banks in India as above, please let me know by telegraph, in order that the Head Offices in London may be informed

## Telegram from VICEROY, dated 3rd March 1908

Your telegram 25th February and previous correspondence Exchange remains low in spite of this being the normally busy season, and the telegraphic rates cannot rise over  $15\frac{2}{3}d$  Also it seems highly possible that after March, when exports diminish, there will be weakness Meanwhile, it seems from your curtailment of Council Drawings that you may shortly have to transfer a considerable quantity of gold from Currency to your Treasury Thus, if there is a falling Exchange in the slack season, we may have to draw bills on you which you will only be able to meet by withdrawals of gold from the Gold Standard Reserve Accordingly we suggest that you should consider the expediency of refraining from further investments on account of the Gold Standard Reserve and of not renewing Treasury Bills, &c, as they mature, in order to increase the stock of liquid gold in the Reserve Despatch follows shortly

## Telegram from VICEROY, dated 4th March 1908

Your telegram of 25th February Rate of Exchange The Exchange Banks have been informed that instead of arrangement previously communicated we shall be prepared, if the demand rate falls below  $15\frac{2}{3}d$ , to sell sterling bills at  $15\frac{2}{3}d$ , up to a maximum of 250,000*l* at a time No bill of smaller denomination than 10,000*l* to be sold, and precise amount offered to be fixed according to circumstances We should be glad to receive your instructions on the following difficulty in procedure which the above arrangement involves We propose, when the necessity occurs, to advertise bills for allotment at noon on the following Thursday, as the English mail leaves Calcutta Thursday evening If tenders are much greater than the maximum limit up to which we are authorised to sell, the wholesale rejection of tenders might depress exchange for the week following, unless special bills can be sold to supplement the regular sale These would be available (for issue at Bombay only) up to Friday afternoon Accordingly we should be glad to be granted authority, in the case for a rush for bills to sell additional bills up to a further 250,000*l* as a maximum in any one week, between Thursday noon and Friday 4 p m There would not be time to get your previous consent for each sale, but we should of course at once telegraph to you the amount of such bills sold

## Telegram from SECRETARY OF STATE to VICEROY, dated 4th March 1908.

Exchanges. Points mentioned in your telegram of yesterday have not escaped my notice With reference to your telegram of to-day, there does not seem to me to be any object in selling 500,000*l* by two instalments in the week, but I authorise you to advertise the sale of that amount without consulting me on any Thursday for the present.

Telegram from COMPTROLLER-GENERAL, dated 26th March 1908

My telegram of to-day. Tenders received, bills on Secretary of State for India 70,000*l* only from the National Bank of India. Tenders accepted in full

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Telegram from SECRETARY OF STATE to VICEROY, Financial Department, dated 2nd April 1908

In order to be in a better position to meet the bills which you draw upon London, I have sold Consols, and now hold in my balances about 1,100,000*l* belonging to the Gold Reserve Fund, including the 318,000*l* which you mention in your telegram of 23rd March. This sum will, like the rest of my balances be lent on security on short temporary loans, and the Gold Standard Reserve will be credited with the interest received thereon. In the accounts of the Fund, the amount thus temporarily lent should be described as temporarily forming part of my balances

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Telegram from VICEROY, dated 11th September 1908

No sterling bills have been sold for four weeks, and exchange being steady above 1*s* 3½*d* per rupee, and Council bills being freely sold, we are announcing to-day discontinuance of offer of bills

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Letter from the GOVERNMENT OF INDIA to the SECRETARY OF STATE, No 89, dated 1st April 1909

MY LORD,

We have the honour to address you regarding certain aspects of the present position of currency and exchange. So long as prospects were uncertain and exchange persistently low, we refrained from raising questions which might be regarded, in the circumstances, as mainly of academic interest. Now, however, that the outlook is more reassuring, we think it advisable to sum up the lessons of the recent operations in support of exchange

2. In 1908, the Gold Standard Reserve was, for the first time, employed in fulfilment of the object for which it was established. Owing to the entire reversal of the balance of trade, exchange fell below "specie point" in March 1908, and we prevented a further drop, which would otherwise have been inevitable, by selling Bills on London until the return of more normal conditions restored the market rate to 1/3½ in August. In the process, Government remitted to London 8,058,000*l* for the public, and withdrew 121 millions of rupees from circulation in India. Intervention on this scale with the natural course of international exchange was clearly an event of the highest importance in our currency history. It has committed us in the eyes of the public, to a line of action which though essential to the success of our policy, has not been always clearly foreseen. The accumulation of a gold reserve in England has frequently been spoken of as if its only purpose were to enable the Secretary of State on occasion to meet his Home charges without being compelled to draw upon India for funds in an unfavourable market. But the further development which places our gold reserve at the disposal of the private remitter is a definite pledge of our active support of the Gold Standard. Any failure to fulfil that pledge, either through the exhaustion of the reserve or for other cause, would shake public confidence in our currency policy to a degree which it would be difficult to estimate

3. The test of our capacity to maintain our policy is unquestionably the strength of the Gold Standard Reserve. The gold which Your Lordship holds in your currency chest, and which has sometimes been described as our first line of defence, as well as the gold which we hold in India whether in our

treasuries or in the currency reserve, disappear into relative unimportance when the balance of trade sets against us for any prolonged period. Our stock of gold in India ceases to be replenished through the ordinary channels, and melts away. The currency gold in London has to be taken by you for our Home charges, when exchange prohibits you from financing them by Council drawings. We have thus to fall back upon the Gold Standard Reserve at a comparatively early stage of a bad cycle. It is the recognized fulcrum of our whole currency system, and its strength is of vital importance both to Government and to the merchants, capitalists and investors who are associated with us in the development of India.

4 In the light of last year's experience, it seems to us impossible to maintain that our Gold Standard Reserve has ever yet approached the position which it ought to occupy. The ideal strength of the Reserve has been the subject of much discussion, and figures have been quoted, ranging from 10,000,000*l* to an amount which would enable the Secretary of State to curtail his drawings by one-half during a period of three successive years. But we may now dispense with *à priori* calculations. During the period from November 1907, when exchange first fell substantially below 1*s* 4*d*, until the end of January last, we lost 15 millions of our gold, thus

	November 1907	February 1909
Gold Standard Reserve - -	14 2	7 9
Currency gold in England - -	6 2	1 5
Government gold held in India - -	4 2	1
	<hr/> 24 6	<hr/> 9 5

This is the result of a little more than a single year of adverse conditions and of a famine which was more restricted in its area than is frequently the case with similar calamities. There is unhappily no assurance that our next period of adversity may not be more prolonged, and it would be no excess of caution if we were armed against two consecutive years such as the one through which we have just passed. We have no wish to speak dogmatically, but we are strongly disposed to regard 25 millions as the minimum of safety in the Gold Standard Reserve, apart from the gold which we may be able to hold in our currency reserve and our treasuries.

5 This brings us to the first definite proposal which we wish to submit for your Lordship's consideration. In July 1907 you decided that 1,000,000*l* out of our profits on coinage might safely be diverted from the Reserve to be utilised on railway capital expenditure. We deprecated the decision at the time, but accepted it and have defended it against an outburst of public criticism in India. You subsequently determined that half the profits on the coinage of rupees should be consistently diverted in the same manner, and this course has accordingly been followed so long as any profits accrued. We would now ask you, however, to reconsider your decision, and to allow the future profits on coinage to pass into the Gold Standard Reserve without deduction, until the Reserve stands at a much higher figure than it has yet attained. We do not yield to you, Lordship, in our desire to press forward railway development in India, but we are convinced that the stability of our currency is a far more vital factor in the welfare of the country than the pace at which our railway facilities are extended. It is highly significant that this view is so widely shared by the mercantile community, in spite of the strong personal interest which attaches large sections of them to an active railway policy. We have already forwarded to you the expression of opinion by the Bombay Chamber of Commerce on the subject<sup>a</sup>, and we now submit, for your information, copies of similar protests which we received from the Chambers at Calcutta, Madras, and Karachi. The position has again been dealt with, in a similar strain and with much conviction, by the Chairman of the Bombay Chamber, whose remarks on the subject at the

<sup>a</sup> Enclosure to Government of India's Despatch No. 296, dated the 8th August 1907, page 160  
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Chamber's annual meeting on the 31d instant have met with the general approval of the business public in India. We find ourselves in entire accord with these views, and we would earnestly press upon your Lordship the impolicy of retarding the growth of the Reserve when circumstances again permit us to renew the coinage of rupees.

6. Another aspect of the Gold Standard Reserve which attracts much criticism in India is the form in which it is held. When the Reserve was first established, it was the desire of Lord Curzon's Government that it should be kept in liquid gold in India. Your predecessor decided to the contrary, and it was invested in gold securities, which have lost appreciably in value. We are not prepared to revive the proposal that the gold should be held in India, though it is our duty to refer to the very strong feeling in favour of such a course which prevails in this country. The feeling is partly sentimental, there is an idea that the gold belongs to India and should be held there. But there is also a belief that its presence in India would be a tangible sign of our Gold Standard, and that its issue in India, when necessary, would be equally effective with the present arrangements to stem a fall in exchange, besides tending to increase the popularity of a gold currency. We do not lay stress on these arguments at present. When exchange is weak, it seems hardly material whether we strengthen it by issuing gold in England or in India. The former is probably the more convenient, and the ideal would be to employ both remedies simultaneously, if we were in a position to do so.

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

8. We have intentionally avoided any general review of our currency policy. Our object for the moment is to place before you the views which are held in India regarding the Gold Standard Reserve, and the convictions

that have been forced upon us by the experience of the last year. The two modifications in procedure which we recommend are in entire harmony with the declared policy of supporting the Gold Standard, and they will go far to secure public confidence in our intentions.

We have, &c.,  
 (Signed) MINTO.  
 KITCHENER.  
 C. H. SCOTT  
 H. E. RICHARDS.  
 H. ADAMSON  
 J. O. MILLER  
 W. L. HARVEY.  
 G. F. WILSON.

## Enclosure No. 1

Dated 16th August 1907

From The Honourable Mr V G LYNN, Chairman, Chamber of Commerce, Madras, to the Secretary to the Government of India, Finance Department

I have the honour to address you with reference to the Secretary of State's reply in the House of Commons, on the 9th July 1907, to Sir Edward Sassoon's question regarding the Gold Standard Reserve Fund and the policy of adding to it the whole profit on coinage

When it became known that profits on coinage were to be diverted to a Silver Branch of the Reserve Fund the mercantile community, through its representative Chambers of Commerce, expressed dissent, and in reply was informed that the Silver Branch was expected to reach the limit of Rs 6 crores required by March of this year, and that thereafter the profit on coinage would be credited to the reserve in gold as before, and in the discussion of the Financial Statement for 1906-07, in reply to the Honourable Mr Finlay's suggestion that the time might shortly come when the profits on coinage could be utilised for the development of railways, the Finance Minister stated that assistance would not become available from this source until the invested portion of the Reserve Fund is considerably larger than it is now

This Chamber therefore cannot but view with very grave apprehension the decision that has now been arrived at, to appropriate half the profit on coinage towards railway development. The Honourable Mr Finlay admitted that the question was one which must be decided without reference to the need of the railways, but with reference solely to the sufficiency of the Gold Standard Reserve Fund for the purpose for which it is formed, and the Chamber submits that there has been no change in the position to justify the alteration of policy, and that as stability of exchange is mainly dependent on public confidence in the ability of Government to combat adverse influences, a vacillating policy such as at present obtains is fraught with very grave dangers

In recent years the Gold Standard Reserve Fund has accumulated very rapidly, the coinage of rupees having been abnormally high in consonance with the export trade, but the Chamber submits that this prosperity cannot be expected to continue indefinitely without interruption. Reactions may be expected from time to time, to meet which it is essential that the Gold Standard Reserve be in liquid form, large enough to meet any calls upon it without danger of depletion. In the opinion of the Chamber, the reserve required is not yet in sight, and the Chamber respectfully begs to urge the necessity of allocating to the Fund the whole of the profit on coinage as it accrues, there being no guarantee as to how long this profit will be available

It seems to the Chamber unlikely that the active circulation in this country will be able to absorb an average of fifteen crores of new rupees annually, and in the absence of a large demand for coined rupees from foreign countries, coining must again be suspended or the country will suffer from an inflated currency. That a large foreign demand exists is known, and this, the Chamber submits, creates an element of danger which should not be lost sight of. Although the day when countries now using Indian

rupees will establish their own coinage and send back to India all the rupees circulating in their respective territory may be remote, it is nevertheless a contingency which has to be provided for, and the more remote the day, the greater will be the liability. Before this happens, conditions unfavourable to exchange may temporarily arise, and should Government find it necessary to indent on the Gold Standard Reserve Fund, the position would be closely watched in countries using Indian rupees, and in the event of the Fund showing signs of depletion they would quickly be returned from abroad, and so aggravate the situation. In addition to the coined rupees held by foreign countries there is the Rupee Paper held in London, amounting to Rs 16 crores, which not improbably might also be returned, to the further aggravation of the position.

When the London Money Market is strained, as at present, it might be found well nigh impossible to realise any appreciable amount of the invested portion of the Fund, and in the event of unfavourable conditions arising, the actual gold in the Reserve Fund being infinitesimal, the only gold available for the Government of India to fall back upon is that in the Currency Reserve, which does not amount to much more than six months' Home Charges, a sum which this Chamber considers quite inadequate to ensure the stability of exchange. For this reason the Chamber would advocate that future additions to the Fund be maintained in gold coin or bullion.

Another factor that appeals to the Chamber worthy of consideration is the growing demand for gold as a medium of circulation. As this demand increases, in equal proportion will the demand for rupees and profit on coinage decrease.

In conclusion, the Chamber desires to say that in its opinion the Gold Standard Reserve Fund is still inadequate for the purpose for which it is formed, and, for the reasons set forth above, it respectfully deprecates any further deflections from it of the profit on coinage.

#### Enclosure No 2

No 1457, dated 6th September 1907

From the Secretary, Bengal Chamber of Commerce, to the Secretary to the Government of India, Finance Department

I am directed by the Committee of the Bengal Chamber of Commerce to address you with reference to the recent decision of the Secretary of State for India to divert a moiety of the profits on coinage to Railway Capital expenditure.

2 The Committee have not so far offered any opinion upon this decision. Their position in regard to it is, that for a number of years they have strongly and consistently advocated the need for increased Capital expenditure on railway equipment\*. They did not hesitate to express publicly their dissatisfaction when it was announced that the railway grant for the current year was to be reduced, and they urged that steps should be promptly taken to raise the grant to the limit originally fixed. The Secretary of State has evidently also come to this conclusion, although he has not been able to adopt the means proposed by the Committee. The method which he has followed has called forth much adverse criticism, and the Committee are not, they regret to say, themselves able to give it their unqualified support, greatly as they appreciate the object in view. For the maintenance of the gold value of the rupee is a matter of even greater consequence than the improvement of the Indian railway system. It rests upon the confidence of the public in the Currency policy of the Government of India, and clearly, therefore, that policy must be such as is calculated to inspire and to promote confidence rather than to give rise to doubt or hesitation. The present is admittedly a period of remarkable trade development in India, and the Committee acknowledge that, so long as existing conditions continue, no adverse effect of the decision can be apparent. But it is only one of several

\* Letter No 826/07, dated 11th May 1907, from the Chamber, to the Government of India, Department of Commerce and Industry (not printed).

changes which have been made recently, and which are leading the public to believe that the Currency policy of the Government is by no means so clear and definite a character as was at one time anticipated

3 To illustrate what they mean, the Committee would refer, in the first place, to the various figures which have been named from time to time as the limit for the Gold Standard Reserve. In the course of the Budget Debate on the 30th March 1904, Lord Curzon said that 10,000,000 would give "a permanent guarantee for stability of exchange". Twelve months later, the Honourable the Finance Minister said he would like to see the Reserve raised to "something between 20 and 30 millions sterling".\* In the following year Mr Baker appeared to have come to the conclusion that "there can be no limit to the Gold Reserve Fund". "So long" he said, "as India has a Gold Standard combined with a Currency which consists mainly of rupees, I consider that we are bound to set apart the whole of the profits on additions to the coinage"† And after stating his reasons for this important expression of opinion, he added "We must, therefore, resist all temptation to use these profits for ordinary current expenditure"‡ Mr Baker again referred to the subject in the last Budget Debate, and you now quote his speech on that occasion in support of the decision to supplement the ordinary revenue of the country by a diversion of part of the coinage profits. The Committee wish it to be understood that they cite these passages simply in order to show that, so far as the public can judge, the opinion of the Government of India in regard to the limit of the Gold Standard Reserve is indefinite, it seems to be changing from year to year. It may be, of course, that these changes are more apparent than real, but the public can only arrive at conclusions upon the information which is placed at its disposal. Then again, last year what the Government defined as a "Silver Branch" of the Gold Standard Reserve, was formed. But no previous intimation was given that any such step was contemplated, and the subsequent protests of the commercial community were disregarded, although they were supported by Sir Edward Law, the late Finance Minister. Furthermore, what was described as "a temporary loan" was taken in December 1906 from this Silver Branch of the Reserve "in order to assist the Government in meeting the very heavy issues of Telegraphic Transfers by the Secretary of State"§. But the Indian Chambers of Commerce were not asked how they would view such a diversion of the Fund, and, in fact, nothing was known of the matter until the receipt of your letter from which I have just quoted.

4 At the moment, the Committee are not so much concerned with the merits of either of these two new departures. The point is that, taken in conjunction with the further most important change which has just been made, and with the unsettled state of opinion as to the limit of the reserve, they will have, or may have, the ultimate effect of seriously disturbing public confidence. No doubt it will be argued that in an undertaking of such magnitude an absolutely rigid and inflexible policy is an impossibility, that experience of the working of the delicate machinery by which the stability of exchange is secured is certain to suggest changes from time to time, and that such prompt action is sometimes necessary as to prevent consultation with the representatives of mercantile interests. The Committee do not deny that there may be force in this contention. But they are convinced that sudden changes must ultimately have an unsettling influence, and that no effort should be therefore spared to reduce them to an absolute minimum. The Committee do not pretend to be able to suggest a course of action by which the Government could have avoided what has been done. It is, however, their considered opinion that a more definite policy is imperative if confidence is to be permanently maintained; and they believe that the leading features of such a policy cannot be defined without a further

\* Budget Debate, 29th March 1905 (H C 167 of 1905, page 206)

† Budget Debate, 28th March 1906. (H C 162 of 1906, page 212)

‡ Letter dated 19th August 1907, from the Government of India, Finance Department, to the Bombay Chamber of Commerce (not printed)

§ Letter No. 561 A, dated 26th January 1907, from the Government of India, Finance Department, to the Bengal Chamber of Commerce (not printed)

exhaustive inquiry In fact, they are persuaded that the time has come when the Indian Currency question ought to be once more thoroughly examined by a commission of experts

5 It will be 10 years in April next since the appointment of the last Currency Commission The success of the policy which was based upon its recommendations has been perhaps greater, and certainly more immediate than was anticipated The trade and commerce of the country have increased at an unexampled pace, and the resulting expansion of the Silver Currency has raised the Gold Reserve to a strong position within a comparatively brief period But prosperity has brought with it new problems for solution, and one of the greatest of these is the limit at which the Reserve ought to be fixed That there is a diversity of opinion upon this vital point, need not be further insisted upon, and a ruling from an expert Commission, as to what would be a safe limit for the next 10 years, could not fail to inspire confidence An almost equally important question is as regards the form in which the Reserve should be held To maintain a sum approximately to 20 millions sterling, or perhaps more, in gold coin or bullion, might not, the Committee fear, commend itself to commercial men as a business proposition But at the same time, there is a very strong feeling that the actual gold in the Reserve is insufficient, and it cannot be overlooked that the Fowler Commission recommended that the Reserve "should be kept in gold" A new Commission would examine this question attentively, and their opinion would be generally accepted as authoritative The present position of what are known as gilt-edged securities opens up a further question for the consideration of the Commission For, if investment is to be continued, the public will desire to have some assurance that a wise discrimination will be exercised in the choice of stock There does not seem to be a general agreement that all the investments which have hitherto been made are in every respect the best possible

6 The foregoing appear to the Committee of the Chamber to be some of the principal points which a Commission would investigate But in connection with so complex and difficult a problem there are, of course, many other matters which would likewise come under review When all of these had been considered, the Commission would be almost certainly in a position to define and to limit the policy of the Government for a further period of, say, 10 years It may be reasonably expected that such a definition and limitation would have a marked beneficial effect For it would obviate to the greatest extent possible the occurrence of such changes as those which have given rise to the present discussion, and it would dispel the idea, which now seems to be abroad, that a hesitating and vacillating policy is being pursued A Commission would also afford an opportunity to all interested in the Currency question of placing their views on record, and the experience which has been gained during the past 10 years would be thus made available for the guidance of those who will be responsible in the future for the direction and management of Indian Currency affairs

Enclosure No 3

No 507, dated 1st October 1907

From A THOLE, Esq, Vice-Chairman, Karachi Chamber of Commerce,  
to The Secretary to the Government of India, Finance Department

The Committee of this Chamber have been favoured by the Bengal Chamber of Commerce with a copy of their letter to you, No 1457—1907, dated 6th September, on the subject of the decision of the Secretary of State for India to divert a moiety on the profits on coinage to Railway Capital Expenditure

While on the one hand my Committee acknowledge that the need for augmenting the carrying capacity of the principal Indian Railways is very urgent, and that under the present conditions of remarkable trade development

in India no immediate adverse effect of the decision can be apparent, on the other hand they entirely concur with the views expressed by the Bengal Chamber that the decision is one which may affect the confidence in the Currency policy of the Government of India, upon which the success of that policy greatly depends

I am therefore desired by my Committee to express to you that they strongly support the views expressed by the Bengal Chamber in their letter above quoted, more especially with regard to the advisability of a new Currency Commission examining the whole question and making proposals for defining the policy to be followed in the management of Indian Currency affairs

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Despatch from the SECRETARY OF STATE to the GOVERNMENT OF INDIA,  
No 82, dated 2nd July 1909

MY LORD,

In your Letter No 87, dated 1st April 1909, you discuss the administration of the Gold Standard Reserve, and suggest certain changes. The subject is one of great importance, and I therefore welcome the opportunity of considering it, in the light of recent events, in consultation with your Excellency's Government

2 The proposals to which you invite my assent are as follows —

- (1) That the decision communicated to you in my telegram of 2nd July 1907, to use for capital expenditure on railways half the future profits on coinage shall be held in abeyance, and that the whole of the profits shall be paid to the Gold Standard Reserve until that Reserve stands at a much higher figure than it has yet attained
- (2) That a substantial part of the Reserve shall be held in gold

3 The first of these proposals is based on the view that the amount at which the Reserve now stands is below the "minimum of safety," i.e., is less than the amount which it is prudent to hold in the Reserve as a fund from which, until its exhaustion, the Secretary of State in Council may supply his own requirements (and, if necessary, meet bills of exchange sold in India) during the prevalence of conditions adverse to the maintenance of the rate of exchange at or about 1s 4d the rupee

The question of the amount which the Reserve should be allowed to reach before any part of the profits of coinage is used for other objects has been discussed during the past five years by Lord Curzon, the late Sir Edward Law, Sir E. N. Baker, and the Committee on Railway Administration and Finance. There has been, as is natural, a striking divergence of views as to the amount that can be reasonably regarded as affording sufficient safeguards for the maintenance of exchange. In 1904 Lord Curzon observed "Before many years have passed I anticipate that this Reserve will have reached the figure of 10 millions sterling, which will be sufficient for our purpose, and will give us a permanent guarantee for stability of exchange." In 1905 the late Sir Edward Law expressed the opinion that a reserve of 20 millions would be an ample provision for the most unfavourable circumstances for which it would be reasonable to provide. Sir E. N. Baker, in 1905, said, "I should like to see (the Gold Standard Reserve) raised to something between 20 and 30 millions sterling." The Committee on Railway Finance and Administration estimated, in June 1907, that at the end of the year then current the sterling portion of the Gold Standard Reserve would amount to about 14,500,000*l.*, and, as the stock of gold held by the Government outside the Reserve exceeded 11,000,000*l.*,

bringing the total sterling resources available for the support of exchange to about 25,500,000*l.*, they considered that it would not be imprudent to use for capital expenditure on railways 1,000,000*l.* of the profits expected from coinage in 1907-08

It is not surprising that these estimates show a very wide range of variation, since even the last of them was made before conditions involving a strait on the Reserve had arisen or their imminence could be foreseen. Such conditions prevailed with great severity during a considerable portion of the financial years 1907-08 and 1908-09, and you suggest that the experience then gained enables *a priori* calculations such as those mentioned above to be put aside. You quote certain figures which show that during the period from November 1907 to February 1909 the sterling assets of all kinds available for use by the Government for strengthening exchange were reduced by 15,100,000*l.*, and you comment on these figures as follows —

“ This (reduction) is the result of little more than a single year of adverse conditions, and of a famine which was more restricted in its area than is frequently the case with similar calamities. There is unhappily no assurance that our next period of adversity may not be more prolonged, and it would be no excess of caution if we were aimed against two consecutive years such as the one through which we have just passed. We have no wish to speak dogmatically, but we are strongly disposed to regard 25 millions as the minimum of safety in the Gold Standard Reserve, apart from the gold which we may be able to hold in our currency reserve and in our treasuries ”

4 I am inclined to think that the remarks quoted at the end of the preceding paragraph overstate what is required in order to provide suitable safeguards against a fall in exchange. My reasons are as follows —

- (A) It is true that the famine of 1907 was restricted both in area and duration, but it is also true that it occurred at a time when general conditions were exceptionally adverse to the maintenance of exchange. The effect of the famine in reducing India's power of exporting certain articles was felt at a time when the foreign demand for the articles that India was able to export was seriously restricted by commercial depression throughout a large part of the world, intensified, if not largely brought about, by the financial crisis in the United States of America. At the same time the Imports into India of merchandise and silver were on a very extensive scale, the large imports of merchandise being perhaps a consequence of the favourable trade conditions that India had enjoyed for several years previously, while the purchases of silver were without doubt encouraged by the low price. The result of these various causes was that during the period from 1st November 1907 to 31st October 1908 the foreign trade of India on Private Account showed a balance of net imports of 1,190,000*l.*, whereas, as will be seen from the enclosed statement, there was in each year from 1896 to 1907 (which period included two severe famines) a substantial balance of net exports in the corresponding months.
- (B) The gold in the Paper Currency Department cannot, in my opinion, be left out of account in any calculation of the amount of sterling resources which should be held as a safeguard for exchange. The reasons which have commended to you the opposite conclusion are summarised in the following passage in paragraph 3 of your letter — “ The gold which your Lordship holds in your currency chest, and which has sometimes been described as our first line of defence, as well as the gold which we hold in India whether in our treasuries or in the currency reserve, disappear into relative unimportance when the balance of trade sets against us for any prolonged period. Our stock of gold in India

" ceases to be replenished through the ordinary channels and " melts away. The currency gold in London has to be taken " by you for our home charges, when exchange prohibits you " from financing them by Council drawings. We have thus to " fall back on the Gold Standard Reserve at a comparatively " early stage of a bad cycle. It is the recognised fulcrum for our " whole currency system." It appears to me that in these sentences the importance of the following considerations is not fully recognised —

(1) According to the figures given in paragraph 4 of your Letter (which, however, do not show the full reduction in the sterling resources of the Government at the time of their greatest depression) the measures taken in 1907 and 1908 for the maintenance of exchange involved a reduction of 15,100,000*l*. in the sterling resources held by the Government for this purpose, of which only 6,300,000*l*. was provided from the Gold Standard Reserve, the remaining 8,800,000*l*. having been taken from the gold held in England and India (4,700,000*l*. from the Currency Reserve in England and 4,100,000*l*. from the Currency Reserve and Treasuries in India).

(2) The Gold Standard Reserve can scarcely be said to have been used at a comparatively early stage of the recent depression in exchange. It was not touched until 13th April 1908, five and a half months after the fall of exchange below " specie point," during which period 2,500,000*l*. was taken in gold from the Paper Currency Reserve in England, and 1,413,000*l*. in India. The whole of the gold withdrawn in England and (as appears from your telegram of 27th November 1907) at least a considerable portion of that withdrawn in India was used for the support of exchange.

(3) In addition to these facts, it would appear to be clear on general grounds that any given sum of sterling money which is (a) used instead of the proceeds of Council bills towards meeting Home Charges, or (b) used to meet bills drawn by the Government of India on the Secretary of State in Council, or (c) issued in India to exporters in exchange for rupees, has exactly the same efficacy for supporting exchange whether it is drawn from the Gold Standard Reserve or from the Paper Currency Department.

5. While, for the reasons given above, I am unable to accord entire assent to your views on all the points that you have discussed in connection with your first proposal, I am entirely in agreement with you as to the paramount importance of maintaining such a reserve of sterling resources as may fairly be regarded as sufficient to maintain exchange in times of prolonged difficulty. In forming a conclusion as to the amount which should be regarded as sufficient for this purpose, it is necessary to bear in mind that it would be wasteful to accumulate a sum largely in excess of what is required to meet all difficulties against which it is reasonable to provide, since an excessive accumulation involves the locking up of funds which might be used for the industrial development of India. As at present advised, I am inclined to think that the prudent and economical course would be to regard 25,000,000*l*. as the minimum amount which should be accumulated in the form of sterling assets of the Gold Standard Reserve and gold held in the Paper Currency Department, and I am willing that, so long as the total of the resources just mentioned stands below that figure, the whole of the future profits on coinage shall be added to the Gold Standard Reserve.

6. It may apparently be possible to accumulate this amount, or even more, before the resumption of the coinage of rupees, if it is decided not to resume coinage until the stock of rupees in the Paper Currency Department falls to 15 crores, and the stock in the silver branch of the Gold Standard



Reserve to 3 crores, amounts which appear to constitute a sufficient minimum. The calculation on which this anticipation is based is as follows —

	£
It is estimated that the Gold Standard Reserve will amount on 31st March 1910 to - - - - -	18,733,000
From this must be deducted the amount to be held in rupees - - - - -	2,000,000
Leaving as the amount which can be held in sterling -	16,733,000
The gold held in the Paper Currency Reserve in England is - - - - -	1,500,000
The rupees in the Paper Currency Reserve amount to 3,362 lakhs. The substitution of gold for 1,862 lakhs would produce - - - - -	12,413,300
Thus, if gold could be substituted for rupees in the Paper Currency Reserve to the full extent contemplated, the sterling resources in that Reserve and in the Gold Standard Reserve would amount to - - - - -	30,646,300

Some allowance must be made for the possibility that (owing to a diminution of the gross circulation of notes) a reduction of the stock of rupees in the Paper Currency Reserve may take place without a corresponding increase of the stock of gold, but any estimate of the amount of such reduction would be of a very conjectural nature.

7 The considerations set forth above lead me to the conclusion that it is not necessary in the interests of exchange to modify, except to the extent mentioned in the last sentence of paragraph 5 above, the decision announced in 1907 to use half the profits on coinage for capital expenditure on railways. That decision was arrived at in view of the urgent necessity for supplying additional resources for railway development—a matter which has been pressed upon the Secretary of State in Council on many occasions by the Government of India—and on the difficulty and the danger to Indian credit involved in any increase of the present rate of borrowing. To retard the improvement and extension of the railway system in order to accumulate, beyond the limit which prudence requires, funds for the support of exchange would involve many disadvantages. At the same time I recognise that before the coinage of rupees is resumed—which may perhaps not occur for some years—new conditions may arise requiring special consideration. Your estimate of the capital expenditure which should be incurred on railways may be modified, loans may be obtained more easily, new experience may have been obtained of the fluctuations to which Indian trade and exchange are liable. I have no desire to forecast now the result of any discussion which may be carried on, in the light of such new conditions, at some uncertain time hereafter between the Secretary of State in Council and the Government of India as then constituted.

8 Your second proposal is that a substantial portion of the Reserve shall be held in gold.

9 The object of this proposal is to ensure that the Reserve shall be readily available whenever required, even though the necessity should arise at a time of general financial difficulty in London. There can, of course, be no possible doubt as to the importance of this object, but I am not satisfied that the adoption of your proposal, in substitution for the present method of dealing with the Reserve, is required for its attainment. As a matter of fact, I have carefully and constantly kept the same object in view whenever I

have had to decide as to the disposal of profits on coinage or of sums accruing to the Reserve by way of interest. The plan which I have followed has been as follows —

- (1) To hold a considerable portion of the Reserve in the form of high class securities with a near date of redemption, because cash can always be obtained at the shortest notice, by sale or loan, for such securities in the event of their realisation before maturity becoming necessary
- (2) To hold in addition such an amount of stocks yielding a higher rate of interest (*e.g.* Consols) as I can count on being able to sell in time to meet all requirements that should be met from the Reserve

I have, of course, borne in mind that the realisation of the securities mentioned in (2) can be effected somewhat gradually, while the proceeds of the securities mentioned in (1) which can be turned into money practically at once, are being used, if necessary, for immediate requirements

As my object has been precisely the same as that to which your proposal is directed, the chief practical question that can be raised (apart from those to be dealt with in paragraph 10 below) is whether I have succeeded in attaining it. I venture to think that the experience of 1908 shows that the answer to this question is in the affirmative. For, although the conditions in London in the year mentioned were very far from favourable to large sales of stock, there was no serious difficulty in providing from the Reserve the 8,058,000*l.*, which was required to meet the London bills drawn by your Excellency's Government, and the further sum of 934,000*l.*, which was temporarily applied from the same source towards defraying the Home charges, and I had also made arrangements for realising, if necessary, a considerable additional amount. In view of these facts I am unable to attach importance to the apprehension that "the free employment of the Reserve" might be seriously hampered by the form in which it is now held. I recognise, of course, that in times of prolonged depression of Indian trade, especially if accompanied by other adverse conditions, the realisation of securities to the amount required to support exchange would require care, but the operation ought not to be beyond the capacity of the Secretary of State in Council and his advisers, and I accept the responsibility for carrying it out on occasion arising.

In this connection it is not inappropriate to remind you that the weekly sales by you during several months in 1908 of sterling bills on London, which were the chief cause necessitating the realisation of securities, were undertaken at my suggestion (*see* my telegrams of 28th November 1907 and 25th February 1908), and that I did not on any occasion propose a reduction of the weekly amount, though I more than once proposed an increase.

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

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

A second argument, to which you refer with approval, is that "other countries are careful to retain the ultimate foundation of their credit in

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

A third argument used by you is that it is desirable that the Government of India, when combating a low exchange, shall be in a position not only to contract the circulation of rupees in India, which is done under the existing system, but also to expand the circulation of gold elsewhere simultaneously (the object of the expansion of the circulation of gold being presumably to stimulate trade throughout the world and thus to increase the demand for Indian produce), and that the latter operation is not within your power unless the Gold Standard Reserve is held in gold. I am not disposed to think that the release of such gold as might be held in the Gold Standard Reserve would have an important or speedy effect in creating a favourable balance of Indian trade, but, if it is to be held that this result would follow, it must equally be held that the previous accumulation of gold in the Gold Standard Reserve would, so long as it was proceeding, have an unfavourable effect on the Indian trade balance, and it would certainly injure India's power of borrowing in the London market.

11 In the two preceding paragraphs I have considered the objections urged against the present practice of holding the Reserve in securities. I have now to draw your attention to the financial gain which has resulted from this practice. The amount received up to date in this country from interest on securities and discount on Treasury Bills, less the loss consequent on the discounting of Treasury Bills before maturity, is 1,778,906*l*. The loss incurred through the sale of securities has been 146,852*l*. The net depreciation at present prices, as compared with the average cost price, of the securities now held is 260,991*l*. Thus in eight years there has been a net gain to the Gold Standard Reserve of 1,371,063*l*.

12 My conclusion regarding your second proposal is as follows.—In view of the pecuniary disadvantage of holding a part of the Gold Standard Reserve in gold, I do not see my way to adopting this proposal. But I am willing to meet your wishes to the extent of leaving 1,000,000*l* of the Reserve uninvested. The part so treated will be either lent from time to time for short periods on approved security to approved institutions and firms or deposited at interest with Banks of high standing, the interest earned being credited to the Reserve. The remainder of the English portion of the Reserve will be dealt with as explained in paragraph 9 above. The transactions necessary to give effect to the decision regarding the 1,000,000*l* that is not to be invested will be carried out gradually and you will be informed of them in due course.

I have, &c,  
(Signed) MORLEY OF BLACKBURN

## Enclosure

Foreign Trade of India (on private account) in each year from 1st November 1896 to 31st October 1908 Figures in millions of pounds sterling

	1896-97	1897-98	1898-99	1899-1900	1900-01	1901-02
MERCHANDISE --						
Exports - - -	64 58	73 93	73 67	69 56	78 94	83 70
Imports - - -	43 79	45 74	48 40	46 92	55 13	52 73
Net exports - - -	20 79	28 19	25 27	22 64	23 81	30 97
GOLD --						
Net imports - - -	2 64	3 18	4 61	6 13	3 81	3 42
SILVER --						
Net imports - - -	5 19	4 57	2 66	94	2 45	5 25
MERCHANDISE, GOLD AND SILVER --						
Net exports (+) or imports (-)	+12 96	+20 44	+18 00	+15 57	+17 55	+22 30

  

	1902-03	1903-04	1904-05	1905-06	1906-07	1907-08
MERCHANDISE --						
Exports - - -	94 51	104 01	106 47	111 23	129 27	99 53
Imports - - -	54 05	61 36	66 07	72 19	79 03	87 42
Net exports - - -	40 46	42 65	40 40	39 04	50 22	12 11
GOLD --						
Net imports - - -	9 56	12 92	9 90	7 50	13 15	4 74
SILVER --						
Net imports - - -	3 75	5 14	3 97	3 71	6 06	8 56
MERCHANDISE, GOLD, AND SILVER --						
Net exports (+) or imports (-)	+27 15	+24 59	+26 53	+27 83	+31 01	-1 19

Despatch from the SECRETARY OF STATE to the GOVERNMENT OF INDIA,  
No 91, dated 13th August 1909

MY LORD,

My attention has been called to the desirability of arranging for earlier and more frequent publication of information regarding the position of the Gold Standard Reserve. Under present arrangements two statements showing the position of the Reserve at the end of each quarter appear in the Gazette of India between two and three months after the end of the quarter. I suggest that, in addition, a statement in the same form as the second of those published in the Gazette of India for 19th June 1909 shall in future, be issued in England and in India in the second week of each month showing the position of the Reserve at the end of the preceding month. I shall be glad to learn by telegram if you agree to this proposal. If you do, the first monthly publication might take place in September; and, in order that there may be no discrepancy between the information published in the two countries, I shall telegraph to the Comptroller-General at the beginning of that month a summary of the transactions that have taken place in

England in August It will then be for the Comptroller-General to telegraph to me as soon as possible the following figures relating to the Reserve :—

- (1) Opening balance 1st August \*
- (2) Particulars of transactions, if any, in India during August \*
- (3) Closing balance 31st August
- (4) Form in which Indian portion of Reserve is held on 31st August.

At the end of each subsequent month I shall telegraph to the Comptroller-General a summary of the transactions in England during the month, and the Comptroller-General should telegraph to me the particulars of additions made to the Reserve in India during the month and of any change in the form in which the Indian portion of the Reserve is held

2 If the proposal made above is carried out, a copy of each monthly statement issued in England will be posted to the Comptroller-General immediately after publication, and a copy of each one issued in India should be similarly sent to this Office, in order that any accidental discrepancy may be discovered as soon as possible

3 I take the opportunity of pointing out that the sum of 469,818*l*, which forms item 3 of the second statement published in the Gazette of India for 19th June 1909, was not held in gold and should not have been so described Any portion of the Reserve which may in future be left uninvested in accordance with the arrangements made in paragraph 12 of my Despatch of 2nd July 1909, No 82 (Financial), will be described in the statements to be issued in this country as "Cash placed by the Secretary of State for India in Council at short notice"

I have, &c  
(Signed) MORLEY OF BLACKBURN

Letter from the GOVERNMENT OF INDIA to the SECRETARY OF STATE,  
No. 236, dated 30th September 1909

MY LORD,

We have the honour to reply to your Despatch No 82, Financial, dated the 2nd July 1909, in which you dealt with our proposals for the future administration of the Gold Standard Reserve

2 In our despatch of the 1st April 1909, No 37, we reviewed the experience of the preceding eighteen months and attempted to sum up the lessons to be learnt from the course of our operations in support of exchange We showed that the main fact which had been brought into prominence by recent events was the inadequacy of our existing gold resources to meet a prolonged crisis As a partial remedy for this state of affairs, and as a precaution against the occurrence of a more serious emergency in the future, we proposed for your Lordship's consideration two specific measures We urged, firstly, that the practice, to which we have always objected, of expending on railways half the profits on coinage should be definitely abandoned, and that all such profits should in future be credited to the Gold Standard Reserve, until that Reserve should stand at a much higher figure than it has yet attained We further pressed the desirability of holding a substantial part of the Reserve in gold In our advocacy of both these measures, we had, as we pointed out in our despatch, the practically unanimous support of the mercantile and banking communities of India

3 In reply to these representations, your Lordship has consented to suspend the diversion of coinage profits to railway construction until such time as the stock of gold in the Gold Standard Reserve and the Paper Currency Department combined shall reach the figure of 25,000,000*l*, thereafter the question will be liable to reconsideration in the light of existing circumstances Though this decision does not go by any means so far as we wished, we welcome it as a step in the direction which we have advocated

\* Information under (1) and (2) is required not for publication, but to enable the figures prepared for publication to be verified

4 On the second point your Lordship has not seen your way to accept our proposals. Holding that, for the purpose of maintaining exchange, securities capable of easy realisation are as efficient as liquid gold, while they are at the same time producing interest to the credit of the Gold Standard Reserve, you have declined to do more than keep a sum of 1,000,000*l*. of this Reserve uninvested, such amount being either lent from time to time for short periods, on approved security, to approved institutions and firms, or deposited at interest with banks of high standing. We accept this decision with regret. While we admit the force of your argument in normal circumstances, and recognise that existing arrangements adequately met the requirements of the late crisis, we would once more emphasise our conviction that it is necessary to provide, and to assure the public that we do provide, against a situation in which the securities of the Gold Standard Reserve would not be easily realisable or realisable only at heavy loss.

5. Accepting however, as we must, your decisions, we now desire to discuss the methods to be adopted, under present conditions, in meeting exchange difficulties in the future. Your Lordship has recognised the advisability of holding at least 25,000,000*l*. in gold and gold securities, and has represented the possibility, under the arrangements indicated in paragraph 6 of your despatch, of increasing this amount to, as much as 30,000,000*l*., exclusive of the gold securities held by the Paper Currency Department. The attainment of this figure involves, however, the reduction of the stock of rupees in the Paper Currency Reserve and the silver branch of the Gold Standard Reserve to fifteen and three crores respectively. You consider these amounts to constitute a sufficient minimum, but we must respectfully differ as to their adequacy.

6 We could not view without grave concern any diminution of the silver branch of the Gold Standard Reserve. Our currency position resembles that of an army exposed to sudden attack on either flank, and we have to provide for a drain upon our silver no less than upon our gold. Unlikely as it at present appears that there will be early need for an extensive coinage of rupees, the future developments of commerce are always uncertain, and we should be extremely loth to expose ourselves to any risk of a recurrence of the difficulties which in 1906 rendered the establishment of the silver branch a necessity. With the extension of the sovereign as a circulating medium, this risk will no doubt tend to diminish, but though, as we note below, there are promising signs of development in this direction, we can only expect very gradual progress, and a very large growth of such circulation would be necessary before the silver branch of the Gold Standard Reserve can safely be diminished. For the present, therefore, we desire to maintain this at the existing figure of six crores.

7 For similar reasons we are equally reluctant to substitute gold for the silver in the Paper Currency Reserve to the full extent that you propose. We consider that at present we cannot with safety hold less than one-half of our liquid currency balances in rupees, and, as we pointed out in paragraph 8 of our despatch No 144, dated 26th April 1906, we ought to have a minimum of eighteen crores of rupees at the beginning of the busy season. As, however, the note circulation has recently expanded, this would, on present figures, give a total gold stock not much less than that assumed by your Lordship, the figures calculated with reference to the position on the 15th September last standing as follows —

	£
Gold Standard Reserve on 15th September 1909 (approximate) - - - - -	18,635,900
Deduct rupee holding - - - - -	4,000,000
(a) Possible Sterling holding in Gold Standard Reserve - - - - -	14,635,900
(b) Currency Gold in England - - - - -	1,500,000
(c) Further possible Currency gold, viz, half of currency balances on 15th September minus (b)	11,441,200
Total possible gold holding (exclusive of gold securities held by Paper Currency Department)	<u>27,577,100</u>

These figures thus admit of a total Currency holding of about 13,000,000*l* in liquid gold

8 We now desire to impress upon your Lordship our firm conviction that the greater part of this sum should be held in India. It is true that in their despatch, No 295, dated the 18th August 1904, Lord Amphill's Government contemplated as sufficient a gold holding of between about 4,000,000*l* and 6,000,000*l* in India, but recent experience has compelled a modification of our views on this point. It is unnecessary to repeat here the arguments in favour of the establishment of an effective gold currency in this country. They were fully set forth in the report of the Fowler Currency Committee, to which our Gold Standard owes its existence, and their cogency has since that day been fully recognised. It is a truism that real stability of exchange can never be assured until gold attains an active and extensive circulation in India: the difficulty has hitherto lain in inducing a conservative people to adopt this form of currency. Shortly before the recent crisis, however, there were signs of encouraging progress in this direction. Though gold was still far from having obtained that popularity which the interests of exchange render desirable, there were indications of a greatly extended use of the sovereign in commercial transactions. It was estimated, for instance, by our Comptroller General that it might shortly be possible to finance in gold no less than 20 per cent of the up-country cotton trade of Bombay. This promising development has naturally received a severe check as a result of recent events. To ensure a free use of sovereigns it is essential that we should be in a position to pass gold liberally out of Currency and Treasury in exchange for notes and silver, and in present circumstances this is impossible, for our operations in support of exchange have left us with an absolutely insignificant gold balance. We have information that sovereigns now change hands at a premium even in the chief commercial centres of the country, while for ordinary purposes they are practically unobtainable. We therefore judge it to be eminently desirable to increase the local gold holding in our Paper Currency Reserve. We could face another exchange crisis with far greater equanimity could we be assured both of an active circulation of sovereigns in the country and of a strong reserve in our Currency chest. The former would enable the ready export of superfluous currency, while the strength of our own reserve would enable us at once to assist this process and, by free issues of gold, to bring about that restoration of public confidence which is of vital importance in the early stages of a panic.

9 For these reasons we wish most emphatically to urge the desirability of holding a large amount of gold in the Currency Reserve *in India*. Of the total sum of about 13,000,000*l*, which according to the figures given in paragraph 7, can be held in liquid gold against notes in circulation, we think that at least two-thirds should be available in this country. We should indeed prefer to hold more, but we recognise the necessity of leaving with you a liquid balance, to provide for any possible purchases of silver that may be required, and for use in the early stages of a struggle with exchange. With the sum of 1,000,000*l* from the Gold Standard Reserve which you intend to keep readily available, you will thus have in London somewhat over 5,000,000*l* in liquid form, and, in view of your opinion on the subject of the realisation of Gold Reserve securities, you will, we trust, consider this sufficient.

10 It is obviously desirable, in the light of the circumstances we have quoted, to lose no time in building up the gold resources of this country, and we have now to set forth the steps which should, in our opinion, be taken to effect this object. Up to the present, you have been able, by excess sales of Council Bills, to replace by gold rupees in the Gold Standard Reserve to the value of 2,800,000*l*, as well as to draw against Treasury balances nearly 2,000,000*l* more than the proportionate budget allotment of the current year (the figures are up to 31st August). Should the prospects of Indian trade continue favourable, there is reason to hope that it will prove possible, in spite of the present weakness of Exchange which has, lately, once more necessitated our offering Bills on London

to a small extent, but which will, we hope, prove to be of a purely temporary character, to draw off before very long the further sum of 3,800,000*l* by which the Gold Standard silver exceeds the necessary minimum. When that position has been reached, we are of opinion that you should stay further drawings other than those required for ways and means purposes, for if further trade demand for money be genuine, the result must then be that gold will come out to us in India. This process should continue until the gold in our Currency Reserve in India has accumulated up to the amount we consider desirable to hold there, viz, two-thirds of one-half the total currency cash holdings, or in present circumstances about 8,600,000*l*. When that position has been attained, your Lordship would, if trade conditions seemed to require this, issue extra Council Bills against Currency until you too were in possession of your full portion of the gold which we desire to hold in the Currency Reserve. The drawing of Council Bills against fresh rupee coinage should not be considered until the full gold requirements of the Currency Reserve both in India and England have been satisfied.

11 The course which we propose to adopt in the event of the occurrence of future exchange difficulties of a serious character will thus be sufficiently obvious. In addition to the necessary step of selling sterling bills on London, we desire, if we have in the meantime succeeded in acquiring a sufficient store of gold, to issue sovereigns in exchange for silver. We shall thus work upon the depressed silver market with double effect. The sale of your Council Bills would of course, have to be practically suspended for the time, and you would find such funds as are absolutely necessary for ways and means purposes in England by drawing first on your Currency gold and then on the Gold Standard Reserve. We trust that this plan of action will commend itself to your Lordship, though we must admit that our feeling of security would be considerably greater could we have the assurance that we possessed in the Gold Standard Reserve a sufficient stock of liquid gold to ensure the successful conduct of such operations over a prolonged period of depression.

12 In conclusion, we desire to emphasise the extreme desirability, in the interests of a stable exchange, of inspiring the public with confidence in the Currency policy of the Government. Such confidence can only be acquired by placing them in possession of the methods we propose to use in order to face difficulties, and we accordingly ask permission to publish our correspondence with you on the subject.

We have, &c

(Signed) MINTO  
O'MOORE CREAGH  
J. O. MILLER  
W. L. HARVEY  
G. FLEETWOOD WILSON  
S. P. SINHA  
H. H. RISLEY

Despatch from the SECRETARY OF STATE to the GOVERNMENT OF INDIA,  
No 25, dated 18th February 1910

MY LORD,

I have considered in Council your letter of 30th September 1909, No 236, containing an expression of your views regarding—

- (1) The amount of rupees that should be held in the Gold Standard Reserve and the Paper Currency Reserve,
- (2) The location of such gold as may from time to time be held in the Paper Currency Reserve,
- (3) The procedure to be followed for building up sterling resources for the support of exchange



2 Your observations on the first of these questions are contained in paragraphs 6 and 7 of your Letter under reply. I thought it desirable that the whole matter should be examined somewhat more fully than is done there or has been done on any previous occasion, and the enclosed Memorandum has accordingly been prepared. I shall be glad if you will give to it your careful consideration, and furnish me with an expression of your opinion as to the suggestions contained therein.

3 On the second question your recommendations are —

- (1) That the stock of gold in the Paper Currency Reserve in India should, as soon as possible, be raised to, and if practicable maintained at, an amount equal to two-thirds of the total that can be held in gold in the Reserve. The estimate which you adopt of the total holding of gold that is at present possible is, approximately, 13,000,000*l.*, so that the level to which you recommend that the stock in India should be raised is 8,666,000*l.* (These figures might be increased if the suggestions in the Memorandum mentioned in the preceding paragraph were adopted.)
- (2) That until the gold in the Paper Currency Reserve in India reaches the level that you recommend, no increase should be made in the amount of gold held in the Paper Currency Reserve in England.

These recommendations evidently rest on the view that it is much more advantageous to increase the stock of gold held by the Government in India than to increase that which is held in the Paper Currency Reserve in England. It is, however, a matter of no small difficulty to compare the advantages of the two courses.

Gold held by the Government in India may be issued for export, or to be used as currency, or to be hoarded, or to be converted into ornaments. So far as it is issued for export, it may be regarded as fully effective for the support of exchange. So far as it is used as currency, it may be regarded as available wholly or in part for supporting exchange when the rate of exchange falls as low as gold export point, since it is probable that in such conditions a part at least of the amount in circulation would be exported, but when the rate falls, not as low as to gold export point, but to a figure at which it is desirable to suspend the sale of Council Bills, the gold in circulation is likely to be of little or no use for supporting exchange, at any rate immediately, since it would probably not be exported, and would obviously not be available towards defraying the Home Charges of the Secretary of State. Gold that is hoarded or converted into ornaments can scarcely be regarded as available at all for the support of exchange.

On the other hand gold held in England is available for supporting exchange not only when the rate falls to gold export point (when it can be used for meeting bills on London sold in India), but also at the earlier stage when the rate has fallen only to the point at which the suspension of Council Bills is desirable (when it can be used towards defraying the Home Charges). The stock is not liable to be depleted by any cause corresponding to the disappearance into hoards of gold in India. When the demand for remittances is strong, gold in England is available for any purchase of silver that may become necessary.

Thus the stocks of gold held in the two countries serve somewhat different purposes, and the practical conclusion that I draw is that it is desirable to hold, if possible, a substantial amount in each country. I am, therefore, unwilling to commit myself to a postponement of any increase of the stock in England for the comparatively long period that may be required for raising the stock in India to two-thirds of the possible total holding in the Paper Currency Reserve. As the stock of gold held by you now exceeds 5,000,000*l.*, I propose to revive shortly the arrangements which were in force in 1905, 1906, and 1907 for the purchase of gold in transit to England.

4 In paragraph 10 of your Letter you describe the method which should, in your opinion, be adopted with a view to building up the sterling resources of the Secretary of State and the Government of India. If I understand

your proposals correctly, you suggest that in the first place the silver in the Gold Standard Reserve in excess of six crores should, as opportunity presents itself, be replaced by sterling, that when this has been done the drawings of the Secretary of State should be limited to the amount required for ways and means purposes, that when these requirements have been met, the drawings should be suspended until the gold in the Paper Currency Reserve in India is raised to the sum decided upon, and that, when the stock of gold in the Paper Currency Reserve in India has been raised to the desired level, the sale of Council Bills should be resumed, but only against the transfer of gold to the Paper Currency Reserve in this country. You recommend also that the drawing of Council Bills against fresh rupee coinage should not be considered until the rupees in the Gold Standard Reserve have been reduced to six crores and the gold in the Paper Currency Department in India and England has been raised to the full amount that is desired.

I presume that you recognise that, if the procedure that you recommend were approved, its adoption would, or might, extend over a series of years, since, if the drawing off of surplus rupees from the silver branch of the Gold Standard Reserve and the raising of the gold in the Paper Currency Reserve to the desired level were not completed at the end of the financial year in which these processes were begun, the resumption of the sale of Council Bills in the ordinary manner would be necessary at the beginning of the next financial year in order to provide for the requirements of the Home Treasury in that year, and the special procedure which you recommend could only be revived late in the year when these requirements had been met. Thus the Secretary of State might continue for a number of years to sell Council Bills and Transfers in the ordinary manner during the earlier months of each year, sales in the latter months being either suspended altogether (if the stock of gold in India was below the desired level) or (if that level had been reached and was being maintained) effected only against the "ear-marking" of gold in London.

I am unable, after the most careful consideration, to accept the view that it is desirable to regulate the sale of Council Bills and Transfers in the manner that you propose.

In the first place, experience shows that the rigid procedure that you recommend is unnecessary for the building up of the sterling branch of the Gold Standard Reserve and the stock of gold in the Paper Currency Department, since without it the sterling branch of the Gold Standard Reserve has in the past been raised to the full amount of the Reserve (less the portion held, for reasons of policy, in rupees), while the stock of gold in the Paper Currency Reserve has from time to time risen not only to a sufficient, but even to an excessive, height.

Secondly, I am of opinion that to carry out your recommendations consistently might at times involve very serious consequences. To refuse at certain times of the year to issue rupees for trade purposes except against gold presented in India or "ear-marked" in London, might cause the periodical recurrence of stringency in the London money market, by which the Secretary of State for India in Council—owing to the frequency and magnitude of his operations in issuing and renewing loans (either direct or through guaranteed railway companies) is peculiarly liable to be injured, and by which it is also probable that the trade of India with other countries would be seriously affected.

5. It seems to me to be clear that in a year of great demand for remittances to India the right course to be pursued in selling and meeting Council Bills and Telegraphic Transfers is as follows—

- (a) The sales to be regulated in such manner as appears likely to stimulate the transmission of gold to India when such transmission is desirable, which is, of course, ordinarily not the case in any year until the sums required by the Secretary of State for the purposes of the Home Treasury and for converting into sterling the excess, if any, of the Gold Standard Reserve, over six crores have been received or practically assured, but the sales not to be suspended at any particular time for the purpose of forcing gold into the Paper Currency Reserve.

- (b) Bills and Transfers, if any, which are sold beyond the requirements of the Secretary of State (for the purposes mentioned in (a)) to be met in one or more of the following methods, viz —  
 From the Treasury balances of the Government of India, or from the silver portion of the Paper Currency Reserve (against the "ear-marking" of gold in London), or from the silver branch of the Gold Standard Reserve (the use of rupees from this Reserve being treated either as a loan to be repaid in India, or as a reduction to be made good by an increase in the sterling branch of the Reserve)
- (c) The choice between the methods mentioned in (b) to be made according to the circumstances of the time

I may add that I am entirely of the opinion, which evidently underlies the last sentence of paragraph 10 of your Letter, that the coining of new rupees should be limited as closely as possible

6 I am unable to accept the suggestion made in paragraph 11 of your Letter that your correspondence with me on the subjects discussed above (by which I understand you to mean your Letter of 1st April 1909, No 87, my Despatch of 2nd July 1909, No 82, your Letter under reply, and the present Despatch) shall be published, but I have no objection to your making public, should you think it desirable, the substance of the following decisions contained in the correspondence, viz, those communicated to you in the last sentence of paragraph 5 of my Despatch No 82 of 2nd July 1909, and in the second sentence of paragraph 12 of that Despatch. You will, of course, understand that no public announcement should be made regarding the question of the purchase of silver, which is discussed in the Memorandum appended to this Despatch

I have, &c,  
 (Signed) MORLEY OF BLACKBURN

Enclosure

MEMORANDUM of the amount to be held in RUPEES in the PAPER CURRENCY RESERVE and the GOLD STANDARD RESERVE

1 The question of the amount that should be held in rupees in the Paper Currency Reserve and in the silver branch of the Gold Standard Reserve is not one on which a decision is now called for by any practical need of the moment. A telegram from the Government of India, dated 12th February 1910, shows that in addition to the rupees in the Treasury balances, the Government holds 2,850 lakhs of rupees and about 12 lakhs of tolas of silver bullion in the Paper Currency Department and 718 lakhs of rupees in the Gold Standard Reserve. During the busy season of 1909-10 and of 1910-11 (if the monsoon of 1910 is favourable) these amounts will no doubt be reduced, partly by the substitution of gold for rupees in the Paper Currency Reserve, and partly by the substitution of sterling investments for a portion of the silver branch of the Gold Standard Reserve, but it is unlikely that either the Secretary of State or the Government of India will propose before 1911 at earliest to buy silver for the purpose of replenishing either reserve by means of additional coining. Whenever such a proposal is made, the question at the beginning of this note will become one of great and immediate practical importance, for the answer to it will necessarily govern the decision as to the time at which, and the scale on which, the purchase of silver shall be undertaken.

The question is far from easy, and, whatever estimate may be formed and used at any time as the basis of a practical decision regarding the level at which the stock of rupees in the two Reserves shall be kept, there must always be the possibility that subsequent events will so shape themselves as to show that a different decision would have been more beneficial. If a liberal view of the requirements of the two Reserves is taken and large amounts of silver are bought and coined, trade may immediately fall off and exchange decline, rupees in the Reserves may for a long period be practically useless, and the temporary loss of the sterling resources with which they

were purchased may be a serious misfortune. If, on the other hand, the more restrictive view is acted on, and the stock of rupees kept low, a sudden outburst of great trade activity may expose the Government of India to embarrassment in its attempt to cope with the demand for currency. This difficulty is one which can never be avoided. But it is obviously better to consider at leisure the important question involved than to leave it until a practical decision is urgently required. It is therefore proposed to examine now the views expressed by the Government of India in paragraphs 5 to 7 of their Letter, No 236 (Finance), dated 30th September 1909.

2 The Government of India are of opinion--

That the silver branch of the Gold Standard Reserve should not be allowed to fall below six crores, and

That they cannot at present safely hold (presumably at any period during the year) less than half of the metallic portion of the Paper Currency Reserve in rupees, and that they should have a minimum of 18 crores at the beginning of the busy season.

If the practical effect of these suggestions is examined in the light of the fact that the normal volume of the Paper Currency circulation will in all probability soon be about 50 crores, with a metallic reserve of 38 crores, it will be found (a) that the suggestions do not really discriminate, though they do so in appearance, between the requirements of different periods of the year, and (b), that, if they were carried out, the stock of rupees in the Paper Currency Department, and the percentage to the Paper Currency circulation, would (unless the total circulation is materially reduced or the fiduciary portion increased) be much higher during a part of the year than has been found necessary in recent years. These points will be dealt with separately.

- (a) In any estimate of the amount that should be held in rupees in the various reserves it appears to be absolutely necessary to discriminate between the requirements of the various periods of the year. There is, in normal years, a net absorption of rupees into the circulation for which the Government must provide in some way or other, but the absorption proceeds at different rates of speed at different seasons, and there is often during certain months a return of rupees from circulation. The period of most rapid absorption is usually from October to December, when the Government cannot rely on the outturn of the mints to keep pace with the demand for rupees. The return of rupees from circulation is most frequent in the quarter from April to June. It is therefore evident that, if the safe minimum holding of rupees on 1st October is represented by a particular figure, the possession of a smaller amount on 1st April will ordinarily suffice. The appropriate amount of the difference between the two figures will be discussed later. Meanwhile, it is important to observe that, if the suggestion of the Government of India were carried out, the reserve of rupees held against the Paper Currency would, if the note circulation stands at 50 crores and the fiduciary issue at 12, be not less than 19 crores all the year round, and the additional condition purporting to require a minimum of 18 crores at the beginning of the busy season would be unnecessary.
- (b) The effect of keeping in rupees all the year round at least half the metallic portion of the Paper Currency Reserve, and also 6 crores belonging to the Gold Standard Reserve would be, assuming a gross circulation of 50 crores and a fiduciary issue of 12 crores, that the amount of rupees (19 crores) to be kept in the Paper Currency Reserve would be 38 per cent of the gross circulation, and that 25 crores in all would be held in rupees outside the Treasury balances. Whether so large a holding is at any time necessary is open to question, but it seems quite certain that it is in excess of what is required at the end of the busy season, say, on the 31st of March of each year, as is shown by the following statement relating to the rupees and silver bullion that were held

in the Paper Currency Reserve and in the Gold Standard Reserve  
on 31st March of each year from 1900 to 1909 —

1	2	3	4	5	6	7	8
Date	Gross Circulation of Currency Notes	Silver Coin in Paper Currency Reserve	Percentage of Silver Coin in Paper Currency Reserve to Gross Circulation	Silver Bullion in Paper Currency Reserve and in Transit	Rupees in Gold Standard Reserve	Total Rupees in Paper Currency Reserve and Gold Standard Reserve (counting 1 tola of Bullion as 1 Rupee)	Proportion of Total in Column 7 to Gross Circulation of Currency Notes (Column 2)
	Lakhs	Lakhs	Per cent	Lakhs of tolas* (approximately)	Lakhs.	Lakhs	Per cent
31st March 1900	28,74	5,24	18 2	—	—	5,24	18 2
" 1901	29,87	9,42	31 5	2,67	—	12,09	40 5
" 1902	31,66	11,13	35 1	—	—	11,13	35 1
" 1903	35,72	10,93	30 6	—	—	10,93	30 6
" 1904	38,21	11,50	30 1	80	—	12,30	32 2
" 1905	39,18	11,36	29 0	2,55	—	13 91	35 5
" 1906	44,66	13,58	30 4	1,52	—	15,10	33 7
" 1907	46,95	13,72	29 2	7,81	6,00	27,53	58 6
" 1908	46,89	25,18	53 7	12	6,00	31,39	66 9
" 1909	45,49	31,12	68 4	12	15,88	47,12	103 6
Proposals of Government of India (taking gross circulation at 50 crores and fiduciary issue at 12 crores)	50,00	19,00	38 0	—	6,00	25,00	50 0

\* The Paper Currency Reports show the cost price of silver bullion held in the Reserve, and it has been assumed for the purpose of the present Statement that each hundred rupees' worth of silver bullion represents 150 tolas from which 150 rupees can be coined.

In dealing with these figures the particulars relating to 31st March 1907, 1908, and 1909, may be left out of consideration as belonging to a period at which the stock of rupees was admittedly excessive. At the other seven dates the total amount of silver held in the Paper Currency and Gold Standard Reserves, the proportion of coin in the former reserve to the note circulation, and the proportion of the silver in both reserves to the note circulation were all considerably lower than would probably result from the adoption of the present proposals of the Government of India, and yet there is no reason to believe that, except at the first date, the available stock of rupees or of rupees and bullion combined was found to be inconveniently low. Such inconvenience as has from time to time arisen since 1900 owing to a deficiency of rupees has been felt during the busy season, and (as is shown at the end of paragraph 3) in consequence of the stock of coined and uncoined silver at the beginning of that season having been allowed to fall too low. It is most important to guard against its recurrence, but it is not necessary or desirable for that purpose to maintain an excessive stock of rupees at a different period of the year when entirely different conditions prevail.

3 It is evident that the problem under consideration must be approached in a somewhat different manner from that which has been adopted by the Government of India, so that proper allowance may be made for the varying conditions of different periods of the year, and the best procedure appears to be to attempt to estimate—

- (a) The amount of rupees that should be held in the two reserves on the 31st March of each year, which may be regarded as (approximately) the end of the period of most rapid absorption, and the beginning of the period during which a return of rupees from circulation is least unlikely.
- (b) The additional amount that should be held on 1st October of each year in order to provide in advance for the demands of the period of most rapid absorption.

Any agreement that might be reached on these two points would be of very great value for regulating the purchase and coinage of silver throughout the year. The following suggestions are accordingly submitted —

(a) *Rupees to be held on 31st March of each year*—The figures in the table above appear to indicate that a stock of rupees in the two reserves equal to 35 per cent of the gross currency note circulation (i.e., 17½ crores when the gross circulation is 50 crores) is as much as prudence requires. It may be assumed that no large stock of silver bullion will be held otherwise than temporarily, so that silver bullion in the Paper Currency Reserve may be treated as the equivalent of rupees at the rate of 1 tola = 1 rupee. The distribution of the stock of rupees between the two reserves and the use to be made of the holding in the silver branch of the Gold Standard Reserve, are considered in paragraphs 4, 5, and 6 below.

(b) *Additional amount to be held on 1st October of each year*—In fixing this amount, the factors that have to be borne in mind are (1) the amount of possible absorption of rupees into the circulation during the busy season, (2) the extent to which it may be reasonably estimated that the mints will be able to coin new rupees during the busy season towards meeting the absorption.

(1) *Amount of possible absorption during busy season*—The best data for valuing the first factor appear to be the figures which are given in the annual Reports of the Paper Currency Department of the net absorption of rupees into the circulation (or return of rupees from the circulation) in each quarter of each year. The figures for the period 1898–99 to 1908–09 are collected in the following table —

Net absorption of rupees into circulation (+) or return of rupees from circulation (—)

Year	April to June	July to September	October to December	January to March	Whole year
	Lakhs	Lakhs	Lakhs	Lakhs	Lakhs
1898–99	— 21	— 48	+ 1,62	— 2,54	— 1,61
1899–1900	— 64	+ 4,46	+ 7,84	+ 2,27	+ 13,93
1900–01	+ 1,00	+ 5,06	+ 4,13	— 1,57	+ 8,62
1901–02	— 63	+ 41	+ 1,74	— 2,20	— 68
1902–03	— 3,26	— 72	+ 3,13	+ 87	+ 2
1903–04	+ 1,84	+ 2,54	+ 6,10	+ 99	+ 10,97
1904–05	+ 37	+ 3,31	+ 3,92	— 17	+ 7,43
1905–06	— 1,16	+ 3,39	+ 11,39	+ 88	+ 14,50
1906–07	— 24	+ 6,00	+ 10,68	+ 1,66	+ 18,00
1907–08	+ 1,82	+ 1,45	+ 7,35	— 6,70	+ 3,92
1908–09	— 7,98	— 7,18	+ 3,39	— 3,11	— 14,88

These figures suggest that the following estimates fairly represent the maximum absorption during the busy season that need be allowed for, viz —

	Lakhs
October to December	— 11,50 ✓
January to March	— 2,50

(2) *Coinage during the busy season*—The portion of this absorption that it is reasonable to expect to be able to meet by new coinage during the busy season may be estimated as follows —It is understood that the Calcutta and Bombay mints together can coin the following amounts of rupees per month (in addition to small silver and copper coin), viz —

With overtime	— 4½ crores
Without overtime	— 2½ crores.

It would thus be possible, if a sufficient supply of bullion were available, to coin in each quarter of the busy season enough new rupees to provide for absorption to the full extent

shown above. But allowance must be made for the probability that new coinage in the busy season would not be taken in hand until some time after the season had begun, and it is therefore perhaps not safe to estimate at more than 5 crores the coinage that would take place, even in a very busy year, during the October to December quarter. It may be assumed that in the quarter from January to March it would be possible to coin enough rupees to keep pace with the absorption during that quarter.

Thus the depletion in the busy season for which provision should be made in advance may be estimated as follows —

	October to December	January to March
	Crores	Crores
Absorption - - - -	11½	2½
Deduct new coinage - -	5	2½
	<hr style="width: 50%; margin: 0 auto;"/>	<hr style="width: 50%; margin: 0 auto;"/>
Depletion - - - -	6½	Nil

On this basis the additional amount to be held on 1st October would be 6½ crores and the total amount would be 17½ + 6½ = 24 crores. Past experience seems to show that this amount is likely to be sufficient, for difficulty is not known to have arisen in meeting the public demand for rupees except in 1900-01, 1903-4 (see Letter from Government of India, No 121, dated 28th April 1904) and 1905-06 (see Letter from Government of India, No 144, dated 26th April 1906), in which years the silver branch of the Gold Standard Reserve did not exist, and the only stock of rupees and silver bullion outside the Treasury balances was that which was held in the Paper Currency Reserve, amounting at the commencement of the busy season in the years mentioned to the following sums —

	Silver Coin	Silver Bullion	Total
	Lakhs of Rupees	Lakhs of Tolas	Lakhs
30th September 1900 - -	5,33	—	5,33
30th September 1903 - -	10,69	—	10,69
30th September 1905 - -	13,07	280 (approximately)	15,87

There is no reason to believe that difficulties would have arisen if a stock of rupees, or of rupees and silver bullion combined, calculated in the manner now proposed, had been held at the beginning of the busy season in the years mentioned.

4 If it is provisionally assumed that (in the absence of any material increase in the gross circulation of currency notes) adequate provision will be made for satisfying the demand for rupees in India by preventing the stock of rupees in the Paper Currency Reserve and in the silver branch of the Gold Standard Reserve from falling below 24 crores on the 1st of October of any year, or 17½ crores on the 31st of March, the next point to be considered is the distribution of these totals as between the two reserves. In his Despatch of 2nd July, 1909, No 82 (Financial), the Secretary of State suggested that the holding of rupees in the silver branch of the Gold Standard Reserve should be reduced from six to three crores, but the Government of India, in their Letter of 30th September 1909, No 236, state that they could not view the proposed diminution "without grave concern". It must be admitted that, when once an agreement has been reached as to the total to be held in the two Reserves, the retention of a comparatively large portion in the silver branch of the Gold Standard Reserve will be advantageous for the following reason — Rupees cannot be taken from the Paper Currency Reserve except against the payment of gold to it (in England or India), or against the cancellation of notes, all of which courses may, at

certain times, present great difficulty. On the other hand, rupees can be taken from the silver branch of the Gold Standard Reserve, either by way of temporary loan, or against an addition of cash or securities to the portion of the Gold Standard Reserve held in England. For this reason circumstances may arise in the future, and, indeed, they have not been unknown in the past, in which it is very useful to have the option of drawing on the Gold Standard Reserve rather than on the Paper Currency Reserve for the purpose of meeting a demand for rupees. It therefore appears to be wise to accept the preference of the Government of India for continuing to regard six crores as the normal holding of rupees to be retained in the silver branch of the Gold Standard Reserve.

5 But, if this is to be done, it is most desirable to come to an understanding regarding the methods of repaying any loan that may be taken from the silver branch of the Gold Standard Reserve, and for this purpose it will be well to reconsider a decision that was reached in 1907. In 1906-07 a large loan of the kind in question was taken, it was not convenient to repay it from the Treasury balances of the Government of India or by a transfer of rupees from the Paper Currency Reserve against the "ear-marking" of gold in England, the idea of repaying it (temporarily at least) by means of the addition of securities to the English portion of the Gold Standard Reserve was mentioned in correspondence between the Secretary of State and the Government of India but was not adopted, it was decided instead to purchase and coin silver in order that the repayment might be effected in India, and very large purchases of silver were made early in 1907 for this purpose. One consequence was that the rupees and bullion held in India rose on 31st March 1907 to a level far beyond the requirements of the Government of India. It is easy to see in the light of subsequent events that the better course would have been to allow the rupee portion of the Gold Standard Reserve to remain, for a time at least, below 600 lakhs (so long as it was not practicable to replenish it by transfers of rupees from the Paper Currency Department against the "ear-marking" of gold in England) and to add (temporarily if necessary) to the sterling portion of the Reserve, in the form either of cash or of securities, the money that was actually spent on buying silver for the rupee portion. The purchases of silver in 1907 would thus have been smaller, and the Secretary of State would have been in a stronger position for dealing with the exchange troubles of 1907 and 1908. The Government of India were at one time (*see* their telegram of 20th December 1906) in favour of this course, but in the latter part of paragraph 2 of their Letter of 21st February 1907, No 66, they expressed strong objections to its adoption on any future occasion, and the Secretary of State yielded to their objections, though (as will be seen from paragraph 9 of his Despatch of 26th April 1907, No 62, Financial), he did not regard their arguments as convincing. It may be hoped that they will now agree that on any occasion on which a loan is to be repaid to the silver branch of the Gold Standard Reserve at a time when the combined stock of rupees in that Reserve and the Paper Currency Reserve is as high as is required according to the calculations above (or any other calculations that may be adopted in their stead)

- (1) The repayment ought not to be made by means of the purchase and coinage of additional silver, and
- (2) That, if there are serious difficulties in the way of making the repayment from the Treasury balances of the Government of India or by a transfer of rupees from the Paper Currency Reserve against the "ear-marking" of gold in England, there is no objection to having recourse instead to a temporary addition to the cash or securities of the sterling branch of the Gold Standard Reserve.

6 If the views set forth above are accepted by the Government of India the considerations by which the purchase of silver for coinage will be regulated, subject to such modifications as further experience may suggest or a material change in the volume of the Currency Note circulation may require, may be summarised as follows —

- (1) Not less than 24 crores of rupees will be held in India on the 1st of October in each year in the Paper Currency Reserve and in the silver branch of the Gold Standard Reserve, six being held, if



possible, in the silver branch of the Gold Standard Reserve, and 18 in the Paper Currency Reserve. Silver bullion in the Paper Currency Reserve will be regarded as the equivalent of rupees at the rate of one tola = 1 rupee.

- (2) During the six months from October to March silver will be bought and coined to the extent estimated to be sufficient to prevent the stock of rupees in the two Reserves from falling below  $17\frac{1}{2}$  crores on 31st March.
- (3) During the six months from April to September silver will be bought and coined as far as appears necessary in order that the reserve of 24 crores mentioned in (1) above may be attained by 1st October, but the purchase of silver will proceed gradually so that it may be discontinued if, during the six months, rupees return from circulation to such an extent as to render it probable that the level prescribed for the 1st October will be obtained without further coinage.
- (4) If it appears likely that the stock of rupees in the Paper Currency Reserve will, owing to the return of rupees from circulation, exceed 18 crores on 1st October or  $11\frac{1}{2}$  crores on 31st March, but that the stock in the silver branch of the Gold Standard Reserve will be less than 6 crores, silver will not be purchased beyond what appears necessary in order to provide the combined reserve of 24 crores on the former date or  $17\frac{1}{2}$  on the latter, and any deficiency in the silver branch of the Gold Standard Reserve will be made good in due course either (a) by a transfer of rupees from the Paper Currency Reserve against either the cancellation of notes in the Treasury balances or the "ear-marking" of gold in England, or (b) by an addition to the sterling branch of the Gold Standard Reserve in England.

7 It will be noticed that all the calculations in this Memorandum are based on the figures relating to the silver portion of the Paper Currency and Gold Standard Reserves, the stock of rupees in the Treasuries being left out of account. This procedure is in accordance with the practice of the Government of India, and is probably the most convenient. If the Government of India wish to take account of the Treasury rupees in any calculations made for the purpose of regulating the purchases of silver, the figures above, and perhaps the general scheme of the calculations, must be modified.

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Letter from the GOVERNMENT OF INDIA to the SECRETARY OF STATE, No. 163, dated 6th July 1911.

MY LORD MARQUIS,

We have the honour to forward for your Lordship's information extracts from an address recently presented to His Excellency the Viceroy by the Karachi Chamber of Commerce and His Excellency's reply to the Chamber.

2 The Chamber made three suggestions: (1) that a substantial portion of the Gold Standard Reserve should be held in liquid gold, (2) that this gold should be kept in India, and (3) that the nature, objects, and management of the Gold Standard Reserve should be defined by statute.

3 His Excellency the Viceroy undertook to convey these suggestions to your Lordship, and we now submit them for your consideration. The question of the constitution of the Gold Standard Reserve was recently the subject of correspondence between the Government of India and the Secretary of State, and the latest orders on the subject are contained in Lord Morley's Despatch No. 82, Financial, dated the 2nd July 1909. We have considered the subject again in connection with this address but, though our

views are substantially in agreement with those of the Chamber, we consider it inexpedient to ask at present for any modification of the latest decision, and we are therefore unable to support the Chamber's proposals

We have, &c.

(Signed) HARDINGE OF PENSURST.  
O'M CREAGH  
G FLEETWOOD WILSON  
J L JENKINS  
R W CARLYLE  
S H BUTLER.  
SYED ALI IMAM  
W H CLARK

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Enclosure No 1

Extract from an ADDRESS presented to HIS EXCELLENCY THE VICEROY by the KARACHI CHAMBER OF COMMERCE

On the subject of India's Gold Standard Reserve, the Chamber are strongly of opinion that the interests of this Dependency would best be served by the retention of a substantial portion of the Reserve, in gold, in India. The Chamber think that this end could best be accomplished by defining the nature, objects, and management of the Gold Standard Reserve by Statute. We respectfully beg, therefore, that Your Excellency's Government will give this most important question their early consideration

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Enclosure No 2.

Extract from HIS EXCELLENCY THE VICEROY'S reply to the ADDRESS from the KARACHI CHAMBER OF COMMERCE

You have referred to the question of the retention of a substantial portion of the Gold Standard Reserve in gold in India. It is a complicated matter of great importance, and I have to thank you for bringing the subject to my notice. I find that it has been under the most anxious consideration, more than once, between the Government of India and the Secretary of State, without whose concurrence it would be obviously impossible to make any change in the existing arrangements, but I shall be glad to convey the opinion to which you have just given expression to Lord Morley

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Letter from the GOVERNMENT OF INDIA to the SECRETARY OF STATE, No 48, dated 29th February 1912

MY LORD MARQUIS,

In Lord Morley's despatch No 25, Financial, dated the 18th February 1910, the views of the Secretary of State in Council were communicated upon certain questions connected with—

- (a) the procedure to be followed in building up the sterling reserves of the Indian Government;
- (b) The amount of gold that may appropriately be held in the Paper Currency Reserve, and
- (c) the distribution of this gold between the Currency chest in England and in India.

His Lordship at the same time forwarded to us, and invited an expression of our views upon, a "memorandum on the amount to be held in rupees in the Paper Currency Reserve and the Gold Standard Reserve" These questions were, in the main, incidents of the larger issue of the adequacy of our gold reserves, which had been discussed in an earlier letter\* from the Government of India. As the subject is one on which all fresh experience is of value, and as Lord Morley's despatch did not seem to call for an immediate reply, we deferred a further statement of our views until we had time to study the direction and the effect of certain new developments in our currency system. The situation has become clearer and more instructive since this interchange of views began in 1909.

2 It will make our present position simpler if we arrive at it by a brief review of the discussion that has taken place, avoiding reference to unessential issues as well as to mistakes which have been made and rectified. When we wrote in April 1909, the hard fact which dominated the situation, apart from all theory or speculation, was the grave loss which our gold reserve had suffered in 1908. The economic sequels of a famine in India—a famine by no means so widespread or protracted as many of its predecessors—coupled with a depression in international trade, had resulted in reducing our reserves of gold and gold securities from 24½ millions to 9½ millions in little over a year. Fortunately, the tide then turned, but the lessons which we had learnt were that our reserves were perilously weak, and that the form in which they are held was open to considerable danger. Those views were shared by the mercantile and banking community in India, and the momentous issue involved justified us in pressing them with all earnestness on the Secretary of State.

3 It was thus in no academic or controversial spirit that we urged on Lord Morley the high importance of aiming at a stronger reserve than we had previously possessed, and the desirability of keeping a larger portion of the reserve liquid, uninvested and ready for immediate use in support of a weakening exchange. Our specific proposals were (1) that the Gold Standard Reserve should be built up from accruing interest and the profits on rupee coinage, without any diversion whatsoever to other purposes, until it reached a total of 25,000,000*l.* and (2) that a substantial part of the reserve should be kept in sovereigns, to be held under as nearly as possible the same conditions as the Paper Currency gold which is "earmarked" in the Bank of England. We took the opportunity of inviting attention to the strong feeling that exists in favour of locating the reserve or a part of it in this country. Lord Morley's reply adopted a somewhat different view of the position and of the lessons to be drawn from it. He considered 25,000,000*l.* to be an exaggerated estimate of the "limit of safety" if applied to the Gold Standard Reserve alone, and he alluded to the disadvantages of locking up funds which might be profitably employed for the industrial development of India. He refused to see any danger in the cautious investment of the reserve, and he rejected several of our subsidiary arguments for keeping any large portion of the reserve in specie. His decision was (1) that our accumulation of gold need not exceed 25,000,000*l.* as an aggregate total for the sterling assets of the Gold Standard Reserve combined with the gold in the Paper Currency Reserve, and (2) that only 1,000,000*l.* of the Gold Standard Reserve need be kept uninvested, though even this amount would be available for short loans in the London market.

4 In a subsequent letter† Lord Minto's Government accepted these orders with regret and suggested means for working them in such a manner as to strengthen the supply of gold in our Paper Currency Department in India. The discussion then branched off into the advantages of holding gold in India for internal use, and proposals were made that the sale of Council Bills should be so regulated as to promote a freer flow of sovereigns into this country. In the letter now under reply, Lord Morley rejoined by

\* Despatch from the Government of India, No. 89, dated the 1st April 1909, page 168.

† Despatch from the Government of India, No. 236, dated the 30th September 1909, page 182.

discriminating between the uses of Government holdings of gold in England and in India. His conclusion was that we may with advantage hold a substantial—but apparently a strictly limited—supply against the Paper Currency in this country. He refused, however, to manipulate the sales of Council Bills for this purpose, and laid down certain general principles to be observed in selling and meeting Council Bills in a year of active trade remittances.

5 Before we examine the various points which emerge from this review of the correspondence, and which we have stated with all possible brevity, it will be convenient to touch upon the Memorandum which accompanied your predecessor's despatch of the 18th February 1910. The Memorandum embodies a calculation of the amount of rupees which safety demands that we should hold in the Paper Currency Reserve and in the silver branch of the Gold Standard Reserve combined, at different seasons of the year. We may note at the outset one slight correction which the Memorandum requires. In paragraph 7 it is stated that the calculations throughout ignore the stock of rupees in our treasuries, whereas we find that the table of "net absorption" near the top of the fourth page takes the treasury figures into account. We should also wish to see the Memorandum amended on a point of history. Paragraph 5 suggests that our objections in 1906-07 to the depletion of the silver branch of the Gold Standard Reserve led to unnecessary purchases of silver. We must altogether demur to this statement of the case. The facts are that in the busy season of 1906-07 there was an exceptionally heavy rush for remittances, the Bank of Bengal rate stood for several months at 9 per cent, and we were quite unable to meet the Secretary of State's drawings from our Treasury balances. At the same time we had a sufficiency of rupees and bullion in the Paper Currency Department, and we begged the Secretary of State to help us by "ear-marking" part of the gold that he obtained from the sale of his bills so as to let us release currency silver. In place of receiving such assistance we were compelled, in our opinion inadvisedly, to borrow the whole of the silver in the Gold Standard Reserve in December 1906\*, and what we did was to urge our strong objections to this course, and to press that the loan should be treated as a purely temporary one, we most certainly did not wish the Secretary of State† to send us silver which we could not use. The Secretary of State, however, finally refused to earmark the necessary quantity of gold for the reason, among others, that he was obtaining 4½ per cent interest on his balances‡, and to enable us to repay our forced loan from the Gold Standard Reserve he bought 4,000,000l worth of silver in March 1907. Our silver requirements for the year had been carefully calculated by us before that, and what we had asked§ the Secretary of State to do was to buy 650,000l worth monthly from the 15th of March, so as to let us pull up whenever we saw any danger of our supply becoming exhausted. The reversal of this arrangement and the unwillingness of the Secretary of State to lock up gold which was bringing in high interest,—these are the causes that led to the heavy accumulation of silver in 1907, and we are unable to assent to any other description of the position.

6 Apart from these corrections we are in general accord with the conclusions of the Memorandum. They present convenient formulæ for discussing the theory of the purchase of silver. But, as the writer admits, a practical decision at any given point of time must vary with the circumstances of the moment, and it is our regular procedure to take a practical decision on this important question once a quarter. We review the stocks of silver and gold in our reserves, we examine the absorption of rupees at the corresponding periods of previous years, we estimate, on the basis of prices and outturn, the requirements of the particular crops—jute, rice, cotton or wheat—which are on the eve of coming into the market, and we endeavour, with the advice of local expert knowledge, to forecast in this way the probable demands for

\* Viceroy's telegram, dated the 16th February 1907, page 151

† Government of India's Despatch No 66, dated the 21st February 1907, page 151

‡ Secretary of State's telegram, dated the 14th February 1907, page 151

§ Viceroy's telegram, dated the 17th January 1907 (not printed)

currency during the ensuing quarter. It is on these considerations of the actual trade conditions of the moment that we determine whether the purchase of silver will or will not be necessary during the coming three months. The Comptroller General watches and reports on the position to us every week, and we are thus enabled to check and correct if necessary our original estimate. While therefore we are, as we have said, in general agreement with the Memorandum that we ought at present to aim at a stock of 24 crores and  $17\frac{1}{2}$  crores of rupees at the beginning and end respectively of each busy season, we should prefer not to bind ourselves by a rigid arithmetical formula. The position is changing rapidly. Since the Memorandum was written, our gross circulation of notes has risen to 60 crores, which would alone suggest higher minimum stocks than those quoted above. There is also a growing demand for sovereigns as a currency medium, and there is some evidence that gold is taking the place of rupees in hoards. On the other hand, a heavy excess of exports is apt to develop at short notice and to continue for protracted periods. All these factors teach the need for elasticity, and we propose to continue our practice of quarterly forecasts and to regulate indents for silver accordingly.

7 We welcome the acceptance in the Memorandum of our view that our stock of rupees should ordinarily include 6 crores in the silver branch of the Gold Standard Reserve. We also agree that if the Gold Standard Reserve silver falls below 6 crores, it should not be made the occasion for fresh coinage, provided our aggregate stock of rupees does not seem likely to be less than  $17\frac{1}{2}$  crores on the next 31st of March or 24 crores on the next 1st of October. We would point out however that, if your Lordship accepts 6 crores as the normal strength of this portion of our reserve, there can be no reason in ordinary circumstances for any lengthy delay in recouping a temporary withdrawal. At the present moment the stock of rupees in the Gold Standard Reserve is only 2 90 crores, and it has been well below 6 crores since the end of March 1910. The Paper Currency Reserve in the interval has been unquestionably strong enough to allow of the requisite transfer, provided the Secretary of State made an equivalent transfer of gold from the Gold Standard Reserve to his Paper Currency chest in London. We have not hitherto raised the question, for the reason that we saw no early prospect of a shortage of rupees, but we cannot readily reconcile the views accepted in the Memorandum with the prolonged abstention from restoring our Gold Standard Reserve silver to the figure which has been determined to be appropriate.

8. In order to put this important question upon a satisfactory footing, we suggest that the following procedure should be observed in future. We conceive that there is no doubt as to the true and primary function of the silver branch of the Gold Standard Reserve. You have employed it at times in a manner to which we were compelled to take exception, but we understand that you overruled us on considerations of temporary expediency, and that you are at one with us in principle. As we regard it, our Gold Standard Reserve silver is a bulwark against hasty coming. It supplements our general stock of rupees when the latter is running low, it gives us time to buy silver at discretion or, if the stringency is temporary, it enables us to carry through without fresh coming until the return of rupees from circulation recommences. This being the part which the Gold Standard Reserve rupees play in our currency arrangements, we should like to see their employment regulated on a definite plan. We think that at the beginning of the busy season we ought to have 6 crores of rupees in the Gold Standard Reserve and at least 18 crores in the Paper Currency Department. We should then make the best possible forecast for the season as a whole, reviewing the position thereafter from month to month, and arranging our coinage programme accordingly if any coinage seems necessary. Our employment of the Gold Standard Reserve silver, however, would be regulated differently according to the progress of the season. In the October to December quarter, when there is always a large absorption of rupees, we should aim at keeping the Currency Reserve of silver up to 18 crores, and the Gold Standard Reserve silver would be treated strictly as a reserve, to be drawn upon only in the event of some abnormal demand falsifying our estimate.

From January, however, as our revenue begins to come in and the position grows clearer, our caution could be relaxed. We should be justified in drawing freely on the Gold Standard Reserve silver, so far as it might be necessary and effective to keep the Currency Reserve of silver up to 15 crores as a minimum, and provided always that our total stock of rupees in the two reserves did not fall below 17½ crores on the 31st of March. All the rupees thus drawn from the Gold Standard Reserve would be transferred to the Currency Reserve in exchange for gold which we should remove from the Currency Reserve in India and deposit in the Gold Standard Reserve in India. When the busy season closed, we should reverse the process, transfer gold from the Gold Standard Reserve in India to the Paper Currency Department, take rupees from the latter in exchange, and with them build up the Silver branch of the Gold Standard Reserve to its accepted figure of 6 crores. In this way we should ensure the correct use of the silver branch and its restoration each year to its proper strength. There would be the minimum of interference with the gold market in London. We should avoid, on the one hand, the artifice of borrowing from the Gold Standard Reserve for Treasury purposes in India and paying interest on the loan, and on the other hand, the anomalous position in which the silver branch has been placed during the last two years. We trust that your Lordship will allow this procedure to be recognised as our regular line of action in the future.

9 We return from this digression to the question of the strength of our gold reserves,—a question of paramount importance to the success of our currency policy, to the stability of our sterling exchange, and thus to the steady progress of the trade and industries of this country. In all these interests we are most anxious to eliminate differences of opinion between Your Lordship and ourselves on minor or unessential issues, and to find ourselves in a position to defend with conviction the whole range of our currency policy against the attacks and criticisms which we frequently have to answer in our Legislative Council and elsewhere. To this end we accept Lord Morley's estimate of the comparative utility of our holdings of gold in England and in India respectively. We should have been glad to meet the widely expressed sentiment in favour of having at least a part of our Gold Standard Reserve in India, but we recognise that, for the purpose of supporting exchange, the issue of our gold is equally, and certainly more quickly, effective in London than it would be in this country. We should also be glad to keep an ample supply of gold in our Indian Currency chests, in the hope of stimulating the genuine circulation of sovereigns. With this desire we understand that Your Lordship is in sympathy, and we gather that you will not interfere with the import of sovereigns into India on private account, so long as the interests of India in the London market are not thereby prejudiced, and so long as funds are assured for your Home payments. Further, we entirely accept the principles enunciated in paragraph 5 of the despatch of the 18th February 1910 for the regulation of the sale and payment of your drafts upon us. There thus remain only the two main issues with which this discussion began, namely, the standard figure for the sterling assets of the Gold Standard Reserve and the form in which those assets are held. On the latter point we adhere to the view that a large holding of liquid gold, strictly reserved for use in emergencies, would do more to strengthen exchange than an equivalent holding of securities which it will not be easy to realise in a crisis. We pressed this view on Lord Morley in April 1909, and failed to convince him. But His Lordship undertook, on behalf of the Secretary of State and his advisers, the full responsibility for realising the Gold Standard Reserve securities to whatever extent may be necessary to support exchange, even in times of prolonged depression in Indian trade and of adverse conditions elsewhere. We feel that we cannot ask for more than this. We should have preferred to see the reserve more independent of the money market, and consequently a more prompt and powerful agency in international trade, but Lord Morley has guaranteed that it will be available whenever required, and with this practical assurance we must be content.

10 On the other main issue we earnestly ask you to reconsider the existing orders. When we advised that the strength of the Gold Standard

Reserve in sterling should be gradually raised to 25,000,000*l*, we had in view a figure which would be generally accepted as conclusive proof of the determination and ability of the Government of India to maintain a stable exchange. Lord Morley's decision that 25,000,000*l* should be our standard for the gold in the Gold Standard Reserve and the Paper Currency Department combined, falls far short of what we believe to be desirable, and it has been regarded by the public with suspicion and dissatisfaction. We do not contest the view, elaborated in your predecessor's despatch of the 2nd July 1909, that the gold in the Paper Currency Department forms a part of our sterling resources, and is equally effective with any other gold, so long as it lasts, in support of exchange. But this particular holding of gold fluctuates for reasons over which we have little control. It is liable to flow out for the demands of ordinary circulation, it is liable to disappear into hoards, and it is liable to be rapidly spent in the purchase of silver. There is no calculation or stability about it, and it fails to impart the confidence in our position which is secured by adequate strength in the separate reserve that has been established solely for maintaining our Gold Standard and is incapable of being used for any other purpose. Our currency gold has been most useful in the past, and will always be available as a subsidiary line of defence against a falling exchange, but our ultimate reserve should be independent of it and its fluctuations. What the public want, and what in our opinion they have every reason to ask for, is a figure up to which the Gold Standard Reserve will be raised before the profits on coinage are diverted elsewhere. We believe that it is a mistake to complicate the issue by any appeal to our other resources. To declare a definite figure for the Gold Standard Reserve alone will clear the air and inspire confidence. What that figure ought to be, is a matter of opinion, but after the experiences of 1907-08 we believe that 25,000,000*l* is advisable, as well as moderate and practicable. The reserve now holds over 17,500,000*l*, and it fructifies at the rate of 500,000*l* a year even if it gains only the slow accretion of its own interest. Should fresh coinage become necessary, the profits thereon would probably bring the reserve easily and rapidly to the figure which we advise. Nor can we share Lord Morley's apprehension that the building up of the reserve to 25,000,000*l* will either divert funds from the industrial development of India or have an unfavourable effect on the Indian trade balance. The profits on coinage and the interest accruing on sums already invested will be used in your hands either in loans to the London market or in the purchase of securities from that market. In either case the total amount of gold on the market is in no way diminished, our particular gold cannot be described as locked up, and we do not understand how either the capital requirements of our industries or the current requirements of our trade can be prejudiced. Even, however, if this argument contains more truth than we conceive, we would urge that the accumulation of an effective balance in support of our gold standard is worthy of some temporary sacrifices. We believe, as we have said, that our proposal is moderate. We cannot see that it would cause any inconvenience to India, and we are convinced that its acceptance would meet with universal approval. The existing orders in our opinion do not provide for reasonable safety, and it is our clear duty to urge on Your Lordship the high importance of revising them, and allowing us to declare that the Gold Standard Reserve will be raised to 25,000,000*l* before the income which now accrues to it is diverted to other purposes.

We have, &c

(Signed) HARDINGE OF PENSHURST  
O'MOORE CREAGH  
G FLEETWOOD WILSON  
R W CARLYLE.  
S. H BUTLER  
S A IMAM  
W H CLARK  
R H CRADDOCK

Despatch from the SECRETARY OF STATE to the GOVERNMENT OF INDIA,  
No 76, dated 28th June 1912

MY LORD,

I have considered in Council your Letter No 48, dated 29th February 1912, discussing various questions relating to currency. I recognise with pleasure that, as you state, you have shown a strong desire to eliminate differences of opinion between the Government of India and the Secretary of State in Council on minor and unessential issues, so that the Government of India may be in a position to defend with conviction the whole range of currency policy against attack in the Legislative Council and elsewhere. It is in a similar spirit that I have considered the questions raised by you.

2. I am in general agreement with what is said in paragraph 6 of your Letter regarding the manner in which the purchase of silver for coinage should be regulated.

3. I recognise the advantage of the working rule, proposed in paragraph 8, regarding the silver branch of the Gold Standard Reserve. In this connection, however, there are two points to be noted —

- (a) The proposal in your telegram of 3rd May 1912 to add to the silver branch of the Gold Standard Reserve only the profit on any silver coinage that may be undertaken this year will in all probability prevent the standard figure of six crores from being attained before October next. If you desire to reconsider that proposal you will doubtless communicate with me.
- (b) The proposed procedure of transferring rupees from the Gold Standard Reserve to the Paper Currency Reserve against a transfer of gold in the other direction is, in my opinion, one from which occasional departures may be necessary, since if rigidly applied it would deprive you of the means of utilising the former reserve for another purpose for which it may sometimes in exceptional circumstances be convenient to use it, viz, that of reinforcing your Treasury balances. Occasions may arise when those balances are insufficient to enable you to meet the Secretary of State's drawings and when they cannot be immediately supplemented by the ear-marking of gold in London without injury to Indian interests in other directions. In such circumstances it may be necessary to withdraw rupees direct from the silver branch of the Gold Standard Reserve, either against a temporary increase of the sterling branch or by way of loan. I fully recognise the objections to the latter alternative. The Government of India stated objections to the former in paragraph 2 of their Letter No 66, dated 21st February 1907, and Lord Morley acquiesced (See paragraph 9 of his Despatch No 62, Financial, of 26th April 1907). As the matter is one of importance, and as I am doubtful whether the decision reached in the correspondence just quoted should be regarded as final,\* I shall be glad to learn your present views on the subject.

4. In paragraph 9 of your letter you mention arguments in favour of holding in gold a portion of the sterling branch of the Gold Standard Reserve. Having regard to the limited supply of suitable securities with a fixed and near date of repayment and to the undesirability of adding to the amount invested on account of the Reserve in Consols and other permanent securities, I have arrived at the conclusion that a portion of the Reserve may now be held in gold. I have therefore decided to set aside, from time to time, but at least once every six months, and to hold at the Bank of England, an amount equivalent to the interest on investments and profits on coinage hereafter received, except profits retained in India for building up the silver branch of the Reserve, until the amount so held reaches 5,000,000*l*.

\* See paragraph 5 of Memorandum forwarded with Lord Morley's Despatch No 25 (Financial), dated 18th February 1910, page 193.



5 In paragraph 10 of your Letter you earnestly ask that a figure be fixed up to which the sterling branch of the Gold Standard Reserve shall be raised before any part of the profits of coinage is used for capital expenditure on railways, and you suggest that 25,000,000*l* is a suitable figure. The adoption of such a limit, to be applied irrespectively of the amount of the gold in the Paper Currency Reserve, involves the possibility that the total resources held available for the support of exchange may be considerably in excess of any requirements that will ever arise, and any such excess is wasteful, as representing money needlessly withdrawn from employment on the avoidance of debt or expenditure on productive purposes. It is clear that this consideration influenced my predecessor in giving the decision conveyed in his Despatch No 82, dated 2nd July 1909, and it is one of great weight. On the other hand, I recognise the importance of a policy of caution in currency matters, and I desire to pursue a course which may be expected not only to strengthen general confidence but also to secure unanimity among the authorities responsible for the currency system as a whole. I have therefore decided that future profits on coinage shall be added to the Gold Standard Reserve until the sterling branch reaches 25,000,000*l*.

6 The fixing of the limit just mentioned adds to the importance of calculating the amount of the sterling branch of the Reserve in a manner to which no reasonable objection can be taken. At present securities are valued at cost price in the monthly and other returns, and it will be seen from the enclosed statement that this had the result of showing on 13th April 1912 a total exceeding by 717,802*l* the selling value of the securities according to market quotations. I propose, therefore, subject to any observations that you may have to offer, to insert market value as ascertained half-yearly, viz, on 1st April and 1st October, instead of cost price, in the monthly published statements of the Reserve. I shall be glad to learn whether you have any objection to this change and from what date you think that it can be most conveniently introduced. You should also state what information, if any, you will require from this country in order to enable you to introduce the change in the various statements regarding the Gold Standard Reserve which you publish in India.

I have, &c  
(Signed) CREWE.

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Gold Standard Reserve

Description	Stock and Securities held		Average Price at which bought	Selling Price 13th April (Minimum)	Amount that would be realised	Loss on Realisation	Gain on Realisation
	Nominal Value.	Cost Price					
2½ per cent Consolidated Stock	£ 4,665,769 18 9	£ 4,207,463 8 0	£ 90 3 7	£ 77 17 6	3,633,468	573,995	—
Local Loans ½ per cent Stock	200,000 0 0	195,105 13 11	97 11 1	88 15 0	177,500	17,606	—
Guaranteed 2½ per cent Stock	438,720 9 8	407,187 9 10	92 16 3	77 15 0	341,105	66,083	—
Transvaal Government 3 per cent (after 1923) Guaranteed Stock	1,042,022 12 0	1,076,523 15 6	98 11 7	92 0 0	1,004,661	71,863	—
Exchequer Bonds 3 per cent (1912)	850,000 0 0	852,786 7 6	100 6 7	100 0 0	850,000	2,786	—
" (1915)	3,885,600 0 0	3,871,304 16 3	99 12 8	100 5 0	3,895,814	—	24,009
British Treasury Bills	4,600,000 0 0	4,439,922 13 3	—	—	4,439,923	—	—
Union of South Africa Bills (1915)	600,000 0 0	577,500 0 0	—	—	577,500	—	—
Canada 3½ per cent Bonds (1912)	378,000 0 0	383,768 6 6	101 10 5	101 0 0	381,780	1,978	—
" 4 per cent Bonds (1912)	81,000 0 0	83,146 8 0	102 13 0	99 0 0	80,190	2,956	—
" 3½ per cent Bonds (1914-19)	161,000 0 0	164,436 13 6	102 2 8	100 10 0	161,805	2,632	—
New Zealand 5½ per cent Debentures (1914)	101,400 0 0	100,006 15 0	98 12 6	99 10 0	100,893	—	886
" (1915)	45,000 0 0	45,169 15 0	100 7 6	99 10 0	44,775	395	—
Queensland 4 per cent Bonds (1915)	17,000 0 0	17,213 6 0	101 5 1	101 0 0	17,170	43	—
" Stock (1915)	10,000 0 0	10,138 2 0	101 7 7	101 0 0	10,100	38	—
New South Wales 4 per cent Bonds (1915)	4,000 0 0	4,105 6 0	102 12 8	100 10 0	4,020	85	—
" 3½ per cent Stock (1915)	113,000 0 0	112,441 15 0	99 10 1	98 0 0	110,740	1,702	—
Southern Nigeria 4 per cent Bonds (1916)	100,000 0 0	98,881 3 4	98 17 7	100 0 0	100,000	—	1,119
Corporation of London 3½ per cent Debentures (1913)	50,000 0 0	50,062 8 0	100 6 1	99 12 6	49,812	190	—
" (1914)	50,000 0 0	50,001 0 0	100 0 0	98 17 6	49,488	563	—
" 3½ per cent Debentures (1915)	45,000 0 0	45,451 0 0	101 0 1	99 0 0	44,550	901	—
	17,987,513 0 5	16,792,546 2 7			16,074,744	748,816	26,014
Cash placed by Secretary of State at short notice		1,110,663 19 1					
		17,903,210 1 8					
						Net loss on realisation	£717,802

Towards meeting Bills on London sold in India, securities of the nominal value of £110,959 18s 9d were sold in 1907-08 and 1908-09, at a net loss of

	£
The loss on the National War Stock and Bonds redeemed on 6th April 1910 was	146,452
" Cape of Good Hope Bonds redeemed on 1st July 1911	3,817
" New Zealand Debentures redeemed on 1st April 1912	2,914
	282
	<u>153,365</u>

The estimated loss on realisation of the securities now held, added to the actual loss on the securities already sold or redeemed, would therefore be

871,167

It may, however, be pointed out that the total amount received, from the date of the establishment of the Reserve to the present date, in respect of Dividends, Discount on Treasury Bills (excluding Discount on Bills now held), and Interest on loans at short notice, has been

2,985,867

R 2

India Office,  
16th April 1912

WALTER BADOCK,  
Accountant-General.

APPENDIX V

203

Letter from the GOVERNMENT OF INDIA to the SECRETARY OF STATE,  
No 338, dated 29th November 1912

MY LORD MARQUIS,

WE have the honour to refer to your Lordship's despatch No 76 (Financial), dated the 28th June 1912, communicating the decision of your Lordship in Council on certain questions connected with our Currency policy and the Gold Standard Reserve

2 We welcome the decisions to allow the sterling assets of the Gold Standard Reserve to accumulate to a figure of 25,000,000*l* before the profits from coinage are diverted to outlay on railway construction and to hold a portion of the assets, fixed by your Lordship at a maximum of 5,000,000*l*, as an "earmarked" deposit in the Bank of England

3. In paragraph 3 of the despatch your Lordship has brought to our notice two points in connection with the silver branch of the Reserve. The first of these refers to the proposal made in our telegram of the 13th May last in connection with silver purchases in the current year, that the silver branch should be built up from profits on coinage. The profits now accruing are being paid in rupees into the silver portion of the Reserve, and it is probable that it will be restored to the standard figure of six crores before the close of the current financial year. We should have been glad to see the silver holding in the Gold Standard Reserve restored to the standard figure some time earlier, but this has not been possible since the commencement of the last busy season, as the stock of rupees in the Currency Reserve did not permit of the transfer, and it was obviously undesirable to purchase silver for this purpose only. We have considered in this connection whether any portion of the profits now accruing should be remitted to England for deposit in liquid gold with the Bank of England before the silver branch is brought up to six crores of rupees. In view of the comparatively strong position of our Gold reserves at the present time, and the importance we attach to restoring the silver branch to its normal strength, we are of opinion that this course is not necessary and that the profits should be applied first to the building up of the silver branch

4. The other point has reference to the proposals made in paragraph 8 of our despatch of 29th February 1912 in regard to the normal procedure for utilising the silver branch of the Reserve. You point out that in exceptional circumstances, that is, when a reinforcement of treasury balances in India is necessary and cannot be effected against the earmarking of gold in London, it may be convenient to withdraw rupees from the silver branch of the Gold Standard Reserve, not, as we proposed, against a transfer to the Reserve of gold in India, but either against a temporary increase of the sterling branch or by way of loan, and as the matter is important you desire with reference to previous correspondence to be informed of our present views on the subject

5. To enable us to answer your Lordship's inquiry on this point it is desirable to consider the use of the rupees in the Gold Standard Reserve from two standpoints, though these are closely inter-connected, as a question, that is to say, in the first place of currency, and secondly as a question of funds. In paragraph 8 of our despatch of the 29th February last we were considering the first aspect of the case, and we stated accordingly, having regard to the circumstances which led to the constitution of the silver branch of the Reserve, that in our view the proper function of the Reserve is to act as a reservoir for *currency* purposes, and that it should be used to support the Currency, which is the main Reserve by exchanges between the two reserves of rupees and sovereigns according to the seasonal variations of demand for currency in different forms

6 For the purpose of the discussion just mentioned we assumed in fact a state of equilibrium, with regard both to the aggregate of each kind of balance, whether treasury, Currency, or Gold Standard Reserve, and to the

distribution of these balances between England and India. We have now to consider a disturbance of this equilibrium, and this amounts to a movement of funds. The first case of this kind mentioned by your Lordship is that in which an actual loan is taken from the Gold Standard Reserve in aid of treasury balances, this, we agree, must be a very exceptional case, and could be justified only when there is an insufficiency in the aggregate treasury balances held in India and in England. The ordinary case is that of transfer of Government funds from India to London, and generally of course this is effected through treasury. The question is what course should be adopted if the treasury balance in India is exhausted and the drawing of further Council bills is necessary. This question, we may observe, though we have described it as one of funds, is connected also with currency, for the bulk of our payments in India has to be made in rupees. For this reason we hold that to have immediate recourse to the Gold Standard Reserve would be inconsistent with the policy of treating the stock of rupees it contains as a real reserve, and in the case stated we think that the requisite drawings should be made through currency. It is only in the last resort that the Gold Standard Reserve should be utilised for this purpose, but we recognise that in certain conditions, of the home market the earmarking of gold involved in drawing through currency might be undesirable and prejudicial to Indian interests, and if such an exceptional emergency were to arise we do not, so far as we can judge at present, see much objection to a temporary investment in England on behalf of the Gold Standard Reserve in easily realisable securities against a withdrawal of rupees in India in aid of treasury balances.

7 It will be observed that in the course of the present correspondence the conception of what is now known as the silver branch of the Gold Standard Reserve has been considerably modified. In the first place, under the proposals made in our despatch of the 29th February, it may now, according to the season of the year, consist indifferently of gold or silver, and in view of this development it might now more appropriately be designated the Indian branch of the Gold Standard Reserve. Secondly, its relation to the Currency Reserve has been clearly set out, and as the manner in which it will be used to supplement and support the Currency Reserve will in future make it more of a real reserve, we think it very important that it should be maintained at what has been accepted as the normal amount of six crores. This point has already been mentioned in our earlier despatch, but its importance is enhanced by our present recommendations regarding the possible use of the Gold Standard Reserve in reinforcing our treasury balances. Should the Indian branch at any time be depleted when the treasury balance in this country was low, then, whatever might be the state of the market at home, there would be no option if further Council Bills were required, but to draw through Currency. The argument based on considerations of currency therefore in favour of maintaining the Indian branch of the Gold Standard Reserve at full strength is reinforced by the desirability of keeping in reserve an alternative method of effecting a transfer of funds.

8 We cordially agree with the suggestion in the concluding paragraph of your despatch that the periodical publications of the balance of the Gold Standard Reserve should show the current market price of investments in securities instead of the original purchase price. This procedure will be followed in the monthly publications in India, commencing with that for the 31st December next, and in the quarterly publications commencing with that for the quarter ending on the same date. The only statements regarding the position of the Gold Standard Reserve which we publish annually are those contained in the Finance and Revenue Accounts—*vide* Accounts No 88 and 88A for 1910-11 and in the Comptroller-General's annual report on the operations of the Currency Department. The latter will show market price in future. As regards the former, the substitution of market price for purchase price would result in showing as an actual debit what is only a difference in valuation and we do not think such a procedure is either contemplated or necessary. We will accordingly make

no change in the method of preparing these statements, but the market price will be stated in a footnote to Account No 88A

9 We agree also that the publications referred to in the preceding paragraph should show the market value as ascertained half-yearly on 1st April and 1st October. The result of this procedure will be that purchase price instead of market value will be shown in the case of investments made since the last half-yearly valuation, and if your Lordship sees no objection, it will be convenient to split up item 3 in the monthly publication as follows —

- “ 3 British and Colonial Securities, &c,  
held on  
(market price on . . . )  
4 British and Colonial Securities since purchased  
(cost price) ”

10 In order to give effect to these proposals, it will be sufficient if the figure for “market price” is substituted for “cost price” in your monthly telegram to the Comptroller-General which will be sent in the beginning of January next, the increase or decrease as compared with the preceding report being also given as a check figure. The result of the half-yearly valuations may also be reported either separately or through the monthly returns regarding the transactions of the Gold Standard Reserve furnished to the Comptroller-General.

We have, &c  
(Signed) O'MOORE CREAGH  
GUY FLEETWOOD WILSON  
W H CLARK  
R H CRADDOCK

Despatch from the SECRETARY OF STATE to the GOVERNMENT OF INDIA,  
No 13 F, dated 24th January 1913

MY LORD,

I HAVE considered in Council your letter in the Finance Department, No 338, dated the 29th November 1912, regarding certain subsidiary questions connected with the Currency and Gold Standard Reserve

2 We are in agreement in holding that when, in order to meet the pressing requirements of trade, I am compelled to sell Bills and Telegraphic Transfers beyond the extent to which you are able to meet them from your Treasury balances, the ordinary and most desirable course to be followed is that you should withdraw funds from your Currency Reserve to meet my drawings, an equivalent sum being transferred by me in gold to the Paper Currency Reserve held at the Bank of England. But we are also agreed that circumstances may arise in which this cannot be done, at any rate on a large scale, without injury to Indian interests, and that in such cases it may be necessary for you to supplement your resources for meeting my Bills by drawing upon the portion of the Gold Standard Reserve held in India, and I note with gratification that you now accept the view expressed in paragraph 2 of Lord Morley's Despatch of 16th November 1906, No 135, in paragraph 9 of his Despatch of 26th April 1907, No 62, and in paragraph 5 of the memorandum forwarded with his Despatch of 18th February 1910, No 25, that in such an event the preferable course, wherever practicable, is that the sum remitted to England from the Gold Standard Reserve should be temporarily added to the portion of the Reserve held in England rather than treated as a loan from the Reserve to the Treasury balances

3 In paragraph 7 of your letter you observe that under the arrangements proposed in your previous letter of 29th February 1912, and approved in my Despatch of 28th June, the silver held in the Gold Standard Reserve

in India may be partly replaced by gold during a portion of the year, and that thus the designation "Silver Branch of the Gold Standard Reserve" will become inappropriate, and you propose to re-name the portion of the Reserve held in India the "Indian Branch of the Gold Standard Reserve" I approve this recommendation

4 I also accept the suggestions made in paragraphs 8-10 of your letter in regard to the future publication of statements showing the composition of the Gold Standard Reserve. Valuations of the Reserve will henceforth be made on the 31st March and 30th September, and their results will be communicated to your Comptroller-General with the detailed accounts sent to him early in April and October

5 As the Indian branch of the Reserve may in the future sometimes contain a considerable amount of gold, it may be well to place on record that the intention of paragraph 5 of my Despatch of 28th June 1912, No 76, was that the minimum of 25,000,000<sup>l</sup> there mentioned was to be exclusive of any gold held in the Reserve in India. To avoid misunderstanding on this point it will be convenient to designate the portion of the Reserve held in this country as the "London branch" of the Reserve

I have, &c  
(Signed) CREWE.

Despatch from the SECRETARY OF STATE to the GOVERNMENT OF INDIA,  
No 76, dated 23rd May 1913

MY LORD,

I FORWARD herewith a Memorandum and Statement giving fuller information regarding the matter discussed in the latter part of paragraph 5 of your Letter No 48, dated 29th February 1912

I have, &c,  
(Signed) CREWE

#### Enclosure No 1

#### Purchases of Silver in 1907

In the series of Despatches noted in the margin\* many important questions relating to the Gold Standard Reserve were, for the time being, settled between the Secretary of State and the Government of India. There is one question on which the discussion was left incomplete, viz, the causes of the large accumulations of silver in the Reserves of the Government of India in 1907

The course of events is discussed, but not quite fully stated, in the passages mentioned in the margin †. It may be briefly summarised as follows. In the winter of 1906-07 sales of Council Bills and Telegraphic Transfers were made in excess of the amount that the Government of India could meet from Treasury balances. The Government of India desired that the excess should be provided for by "earmarking" gold in London, i.e., by the addition of gold to the portion of the Paper Currency Reserve held in London so as to enable a corresponding amount to be taken in rupees from the Paper Currency Reserve in India. The Secretary of State (mainly for

\* Secretary of State to Government of India, dated 18th February 1910, page 185  
Government of India to Secretary of State, dated 29th February 1912, page 195  
Secretary of State to Government of India, dated 23th June 1912, page 201  
Government of India to Secretary of State, dated 29th November 1912, page 204  
Secretary of State to Government of India, dated 24th January 1913, page 206  
† Paragraph 5 of Memorandum forwarded with Secretary of State's Despatch of 18th February 1910, page 193  
Paragraph 5 of Despatch from Government of India, dated 29th February 1912, page 197

the reasons given in paragraph 3 of his Despatch of 26th April 1907, No 62, Financial) did not fully meet the wishes of the Government of India in this matter, though he increased the "earmarked" gold in England from 4,250,000*l* to 8,100,000*l* between November 1906 and April 1907. The excess Council Bills and Telegraphic Transfers, so far as not met in this way, were met by taking loans from the Indian branch of the Gold Standard Reserve, and it was decided to buy silver in order to provide for the repayment of the loans and the restoration of the Indian branch to its normal amount of six crores (4,000,000*l*) by 31st March 1907. This was duly done, and on the date mentioned the Paper Currency Reserve and the Indian Branch of the Gold Standard Reserve included silver as follows (*see* Statement attached) —

		Lakhs
Paper Currency Reserve	Rupees - -	13,70
Paper Currency Reserve	Bullion (in tolas)	
approximately	- - -	6,81
Indian Branch of Gold Standard Reserve		
Rupees - - -	- - -	6,00
		<hr/> 26,51

This was considerably in excess of the amount (17,50 lakhs) required on 31st March according to the standard suggested in the Memorandum forwarded to the Government of India with the Secretary of State's Despatch of 18th February 1910, No 25 (Financial), and accepted, with certain reservations, in paragraph 6 of the Despatch from the Government of India dated 29th February 1912. But, as the absorption of rupees by the public from April to September 1907 from the two Reserves was 2,12 lakhs, the amount held on 1st October 1907, if no purchases had been made after 31st March 1907, would have been 26,51 - 2,12 = 24,39 lakhs, or a little more than the 24 crores suggested and accepted in the correspondence just mentioned.

The amount actually held in rupees and silver on 30th September was (*see* Statement attached) as follows —

		Lakhs
Paper Currency Reserve	Rupees - -	22,79
Paper Currency Reserve	Bullion (in tolas)	
approximately	- - -	3,52
Indian Branch of Gold Standard Reserve		
Rupees - - -	- - -	6,00
		<hr/> 32,31

An insignificant part of the excess of this total over the 24,39 lakhs quoted above was due to the addition to the Reserves after 31st March 1907, of 100,000*l* worth of silver in completion of orders given before that date. The greater part was due to the following purchases of silver made (*see* Statement attached) between 31st March and 30th September 1907 —

By the Secretary of State, in accordance with requests made by the Government of India in telegrams of 16th May, 10th June, 1st July, and 20th August 1907	£	
		2,529,000
By the Secretary of State in addition to the above		9,800
By the Government of India in India		1,528,000
		<hr/> 4,066,800
Total		<hr/> 4,066,800

The out-turn in rupees from this silver was approximately 7,97 lakhs

It may be assumed that the purchases would not have been made if the understanding embodied in the Memorandum forwarded with Lord Morley's Despatch of 18th February 1910, and in paragraph 6 of the Letter from the Government of India, dated 29th February 1912, No 48, had been in force in 1907

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Enclosure No 2  
SILVER HELD BY THE GOVERNMENT OF INDIA, AND PURCHASES

Week ending (1)	Silver Coin in Paper Currency Reserve (2)	Uncoined Silver in Paper Currency Reserve (including Silver in transit as shown in Column 6)		Silver held in India for Gold Standard Reserve (4)	Totals, 2 + 3b + 4 (5)
		Value in Lakhs (3a)	Equivalent in Tola† (approximate) (3b)		
	Lakhs	Lakhs		Lakhs	Lakhs
1907					
January 7	13.89	5.45	7.12	10	21.11
" 15	12.69	5.50	7.19	10	19.98
" 22	13.82	4.15	5.42	58	19.82
" 31	14.12	3.72	4.86	75	19.73
February 7	14.09	3.50	4.57	98	19.64
" 15	14.36	3.78	4.94	1.18	20.48
" 22	14.82	3.72	4.86	1.39	21.07
" 28	15.69	3.72	4.86	1.56	22.11
March 7	15.06	3.73	4.88	2.71	22.65
" 15	14.31	3.69	4.82	2.98	22.11
" 22	13.96	3.89	5.08	5.16	24.20
" 31	13.70	5.21	6.81	6.00	26.51
April 7	13.34	4.88	6.38	6.00	25.72
" 15	13.55	4.27	5.58	6.00	25.13
" 22	13.53	3.94	5.15	6.00	24.68
" 30	14.27	3.53	4.61	6.00	24.88
May 7	14.16	3.13	4.09	6.00	24.25
" 15	14.35	2.72	3.56	6.00	23.91
" 22	14.62	2.44	3.19	6.00	23.81
" 31	15.30	2.17	2.84	6.00	24.14
June 7	15.25	1.92	2.51	6.00	23.76
" 15	16.55	1.63	2.13	6.00	24.68
" 22	17.33	1.63	2.13	6.00	25.46
" 30	18.85	1.49	1.95	6.00	26.80
July 7	18.94	1.49	1.95	6.00	26.89
" 15	19.72	1.41	1.84	6.00	27.56
" 22	20.36	1.41	1.84	6.00	28.20
" 31	21.41	1.59	2.08	6.00	29.49
August 7	21.43	1.71	2.23	6.00	29.66
" 15	22.01	2.11	2.76	6.00	30.77
" 22	22.45	2.02	2.64	6.00	31.09
" 31	22.63	1.65	2.16	6.00	30.79
September 7	21.99	2.12	2.77	6.00	30.76
" 15	21.61	2.37	3.10	6.00	30.71
" 22	21.81	2.67	3.49	6.00	31.30
" 30	22.79	2.69	3.52	6.00	32.31
October 7	22.45	2.71	3.54	6.00	31.99
" 15	21.79	2.71	3.54	6.00	31.33
" 22	21.51	2.55	3.33	6.00	30.84
" 1	21.55	2.07	2.71	6.00	30.26

† A rupee contains a tola of silver

Enclosure No 2  
AND SHIPMENTS OF SILVER FOR COINAGE, IN 1907

Silver bought by India Office and Shipped from London			Silver purchased for delivery in India otherwise than by shipment from London (bought by Government of India unless otherwise stated)				
Amount Shipped	Date of Shipment	Date of Order	Amount.	Date of Delivery	Date of Order		
(6)	(7)	(8)	(9)	(10)	(11)		
£			£				
100,000	25th January	The Government of India on 17th January asked the Secretary of State to buy silver at the rate of 650,000l a month The Bank of England was asked on 18th January to buy until further orders On 9th March the Bank was instructed to cease buying when 3,280,000l had been bought Taking account of the 151,000l shown in column 9, this limit was reached on 19th March					
210,000	1st February						
320,000	8th February						
304,000	9th February						
300,000	15th February						
302,000	22nd February						
315,000	1st March						
272,000	8th March			202,000	21st March	} 20th and 27th February 26th February 18th January	
210,000	9th March			482,000	26th March		
258,000	15th March			40,000*	27th March		
137,000	22nd March		151,000*†	27th March			
123,000	23rd March						
180,000	28th March						
7,000	5th April						
93,000	6th April						
113,000	24th May	On 16th May the Government of India asked for 1,000,000l worth of silver, and this amount was ordered the same day On 10th June they asked for 500,000l and this was ordered on 21 June On 1st July they asked for 500,000l, and this was ordered on 9th July.					
72,000	1st June						
85,000	7th June						
100,000	15th June						
145,000	21st June						
170,000	28th June						
120,000	5th July			9,800*	5th July	28th May 20th June 11th July About 20th July	
158,000	12th July			22,000*†	29th July		
259,000	19th July			110,000	29th July		
41,000	26th July			218,000	29th July		
52,000	27th July						
273,000	10th August	On 20th August they asked for 1,000,000l but the amount was reduced on 14th Sept to 750,000l 500,000l worth was ordered on 23rd Aug, and 250,000l worth on 20th Sept	55,000*†	8th August	26th July 3rd August 23rd July 26th July		
150,000	16th August			56,000*†		9th August	
87,000	23rd August			300,000		26th August	
				100,000		26th August	
				41,000*†		28th August	
				154,000		29th August	
45,000	6th Sept						
160,000	7th Sept			300,000		9th Sept	16th August 26th-28th August
100,000	13th Sept			346,000		25th Sept	
85,000	20th Sept			25,000*†		25th Sept	
115,000	27th Sept						
184,000	4th October		16,000	1st October	About 30th Sept		
36,000	11th October						

\* Purchased by India Office.

† Included in amounts ordered as shown in column 8.

30,000l. of this was paid for on delivery in Bombay on 4th March and did not form part of the Paper Currency Reserve till that date.

## APPENDIX VI

NOTE ON PROPOSALS FOR THE COINAGE OF GOLD IN INDIA, SUBMITTED BY  
MR L ABRAHAMS, C.B., ASSISTANT UNDER SECRETARY OF STATE FOR  
INDIA

1 The Indian Currency Committee of 1898-99 said in paragraph 54 of their Report — "We are in favour of making the British sovereign a legal tender and a current coin in India. We also consider that at the same time the Indian Mints should be thrown open to the unrestricted coinage of gold on terms and conditions such as govern the three Australian branches of the Royal Mint. The result would be that, under identical conditions, the sovereign would be coined and would circulate both at home and in India. Looking forward as we do to the effective establishment in India of a gold standard and currency based on the principles of the free inflow and outflow of gold, we recommend these measures for adoption."

2 The recommendation that gold coin should be a legal tender was carried out by the passing of Act XXII of 1899, which provided that "gold coins, whether coined at Her Majesty's Royal Mint in England, or at any Mint established in pursuance of a Proclamation of Her Majesty as a branch of Her Majesty's Royal Mint, shall be a legal tender in payment or on account at the rate of fifteen rupees for one sovereign."

3 The proposal for the coinage of gold in India was discussed by the Secretary of State with other authorities in this country and with the Government of India between 1899 and 1903, and again in 1912. The correspondence on the subject has been published in Parliamentary Paper 495 of 1913. The chief points in the discussion may be summarised from the Parliamentary Paper as follows —

- i From 1899 to 1902 the correspondence between the Secretary of State and the Government of India proceeded on the assumption that the early establishment at Bombay of a branch of the Royal Mint for the coinage of sovereigns was desirable.
- ii A legal difficulty arose (page 14) as to the possibility of dispensing with a charge for coinage. This was in due course disposed of (page 27).
- iii Similarly, questions regarding the suitability of the buildings, appliances, and staff at Bombay were raised, but these were practically disposed of by May 1901, when a plan agreed to by the Deputy Master of the Royal Mint and an officer of the Government of India was approved by the Treasury (page 55).
- iv The question whether the coinage of gold in India was really necessary and desirable was raised by the Treasury during the discussion of the legal and technical difficulties. As against the Secretary of State's view that it would maintain confidence in the Gold Standard as being "the clearest outward sign that can be given of the consummation of the new currency system" (page 54), the Treasury said "Indian currency needs are, in fact, provided for from other sources [*i.e.*, the importation of sovereigns], and there is no real demand for the local coinage of sovereigns. My Lords cannot believe that the position of the gold standard in India will be strengthened, or public confidence in the intentions of the Government confirmed, by providing machinery for obtaining gold coins which is neither demanded nor required by the mercantile community, while on the other hand, the failure or only partial success of a gold mint would undoubtedly be pointed to by the opponents of the gold standard policy, although without justification, as evidence of the breakdown

“ of that policy The large measure of confidence already established is sufficiently indicated by the course of exchange since the Committee’s Report, and still more by the readiness with which gold has been shipped to India This confidence is, in the opinion of this Board, much more likely to be put in jeopardy by such a result, of which the danger is by no means remote, than by the frank abandonment of one of the details of the policy recommended by the Indian Currency Committee, which experience has shown to be unnecessary ” (Page 55)

- v. Discussion on the points raised by the Treasury came to a natural end when in December 1902 the Government of India wrote to the Secretary of State as follows “ We have now ascertained that the chief mining companies have made arrangements, with which they are at present satisfied, for the regular sale of their gold in London, and we are doubtful whether any terms that we could offer with a due regard to our own interests would induce them at an early date to alter those arrangements and to bring their gold to the mint in Bombay In the absence, therefore, of an assurance that a steady and permanent supply of gold of local production would be available for coinage in this country, we prefer to drop the scheme for the present, leaving its revival to the existence or revival of conditions which cannot at present be foreseen ” (Page 56) The Secretary of State agreed with the Government of India that the proposal for a Bombay branch of the Royal Mint should not be proceeded with for the present (Despatch of 6th February 1903)

4 The discussion which ceased in 1903 was revived in 1911 when Sir V. D. Thackersey spoke in the Viceroy’s Legislative Council in support of the issue of an Indian gold coin from one of the Indian mints In 1912 he moved a Resolution “ that this Council recommends to the Governor-General in Council that the Indian mints be now thrown open to the free coinage of gold “ in coins of suitable denominations ” He expressed a preference for a ten rupee gold piece The Resolution was withdrawn on the receipt of an assurance by the Financial Member of Council that the matter would be laid before the Secretary of State The communication to the Secretary of State took the form of the Despatch dated 16th May 1912 (pages 57 to 63 of Parliamentary Paper) recommending that arrangements should be made, on a small scale at first, for the coinage of sovereigns at the Bombay Mint The proposal rested to a considerable extent on the belief that holders of gold bullion and ornaments would be induced to convert part of them into coin if a mint were established. The Secretary of State found on consulting the Treasury that any mint in India for coining sovereigns would have to be under the control of the Imperial authorities, and that, therefore, the only alternatives were to set up a separate gold mint under such control, or to transfer to the Imperial authorities the whole of the operations of the Bombay Mint including the coinage of rupees as well as sovereigns. To avoid both of these alternatives, he suggested the coinage at Bombay of a ten rupee gold piece, as advocated by Sir V. D. Thackersey (pages 65 and 66) The Government of India have indicated a preference for this over both the alternatives proposed by the Treasury, but the whole matter is left open, pending the recommendations of the present Royal Commission

5 The following information may perhaps be of use to the Commission in considering the question —

\* Down to 1905-06 the Government exports represented (1) gold sent by the Government of India to the Secretary of State to pay for silver, for securities bought for the Gold Standard Reserve, and to meet other disbursements, (2) 5,000,000<sup>l</sup> sent in 1905-06 to establish the English branch of the Paper Currency Reserve The Government exports since 1905-06 have consisted of light coin sent to England because it would have been inconvenient to retain it in India.

6. The attached Statement shows that from 1901-02 to 1912-13 the gross imports of British gold coin into India amounted to 97,473,000<sup>l</sup>, the exports (mainly on Government

account<sup>\*)</sup> to 23,665,000<sup>l</sup>, and the net imports to 73,808,000<sup>l</sup>.

7 When sovereigns are imported into India they are, as a rule, tendered to the Government in order that rupees or notes may be issued in exchange for them at the rate of Rs 15 = 1<sup>l</sup> The proportion of the total imports

tendered by the importers to the Government from 1905-06 to 1912-13 is shown in Statement H accompanying my Memorandum on the "Location and Management of General Balances of the Government of India and Sale of Council Bills and Transfers"

8 Sovereigns received by the Government are made freely available to the public against the tender of rupees, or in encashment of notes, at the rate mentioned above. The Receipts and Issues of British gold coin into and from Government Treasuries and Reserves under this system were approximately as follows in 1909-10, 1910-11, 1911-12, and 1912-13 —

	1909-10	1910-11	1911-12	1912-13
	£	£	£	£
Receipts by Government from Importers	7,139,000	7,626,000	17,053,000	16,939,000
Other Receipts (i.e., Receipts from general public)	894,000	3,727,000	6,869,000	11,393,000
Total Receipts	8,033,000	11,353,000	23,922,000	28,332,000
Issued to public	1,689,000	11,073,000	14,617,000	21,815,000
Light coins exported	—	—	—	2,383,000
Total Issues	1,689,000	11,073,000	14,617,000	24,198,000
Net Receipts*	6,344,000	280,000	9,305,000	4,134,000

9 The absorption of sovereigns in India by the public from 1899-1900 to 1912-13, (i.e., the amount that has passed into the possession of the public either direct from importers or from Government Reserves and Treasuries), is shown in the Statement appended to this Note. The total is 64,815,000.

10 The latest investigations into the extent to which the sovereigns absorbed by the public are used as currency will be found in Mr Gillan's Report on the Paper Currency Department for 1910-11 and Mr Gauntlett's Report for 1911-12. Both writers seem to be of opinion that the use of the sovereign as currency is on the increase in Bombay, Northern India, and Madras, but that elsewhere it is largely used for melting or hoarding or both, which would appear to militate to some extent against the probability of the establishment of a gold mint in India leading to any great extent to the conversion into coin of gold now held in the form of bullion and ornaments.

11 The gold extracted from Indian mines amounts to a little more than 2,000,000 a year. The amount has shown very little variation during the last ten years.

12 No estimate has been framed of the cost of establishing an Indian mint for the coinage of sovereigns. An approximate statement of the staff

\* The net receipts and issues in this Table differ somewhat from those shown in Statement H (2) accompanying my Memorandum on the "Location and Management of General Balances of the Government of India and Sale of Council Bills," (page 85) and from the corresponding ones that could be deduced from the figures in the Statement appended to this note. The comparison is as follows —

	1909-10	1910-11	1911-12	1912-13
	£	£	£	£
Shown in Statement H	6,339,000	59,000	9,344,000	4,135,000
Shown in Table above	6,344,000	280,000	9,305,000	4,134,000

The differences are due to the fact that the figures in Statement H are based, as to the first three years, on the information given in the Reports of the Paper Currency Department, and, as to 1912-13, on information specially furnished by the Comptroller-General and Head Commissioner of Paper Currency, whereas those in the Table above are compiled from the telegrams (four in each month) sent by the Comptroller-General to the Secretary of State. The figures in those telegrams are in thousands of pounds (which would explain such slight divergences as are shown in 1909-10 and 1912-13) but the telegrams sent in 1910-11 and 1911-12 presumably contained errors that were tacitly corrected in the annual statements.

required for a mint capable of coining 2,000,000l a year was drawn up in 1900, and will be found on pages 40 to 42 of the Parliamentary Paper. It will be seen that it includes a superior controlling staff of seven Europeans and five Indians, and a subordinate working staff of 43. The establishment charges (including contingencies and pensions) of other branch mints of similar capacity were in 1911 as follows —

—	Coinage	Charges	—
	£	£	
Sydney - - -	2,645,000	15,157	(Page 127 of Report of Deputy Master of Royal Mint)
Melbourne - - -	2,851,000	15,721	(Page 137)
Perth (excluding pensions) -	4,438,000	20,178	(Page 151)

The Australian Branch mints recover a substantial portion of their expenditure by the levy of Charges for the Coinage of Gold as allowed by Section 11 (8) of the Coinage Act of 1870. The view that has always been taken in discussions regarding a Branch Mint for the coinage of gold in India has been that there should be no corresponding charge in any such Mint (see pages 19, 27, and 60 of the Parliamentary Paper)

STATEMENT of Imports and Exports of British Gold Coin to or from India, Amount of such Coin held by the Government of India, and Absorption by Public

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Year	Imports			Exports			Net Imports			Amount of Sovereigns and Half Sovereigns held in Government Treasuries and Reserves at end of Year	Absorption by Public during Year
	On Private Account	On Government Account	Total	On Private Account	On Government Account	Total	On Private Account	On Government Account	Total		
	£	£	£	£	£	£	£	£	£	£	£
1899-1900 -	—	—	—	—	—	—	—	—	—	—	2,700,000
1900-01 -	—	—	—	—	—	—	—	—	—	6,225,000	2,049,000
1901-02 -	3,511,000	6,000	3,517,000	148,000	1,614,000	1,762,000	3,363,000	- 1,608,000	1,755,000	7,003,000	977,000
1902-03 -	5,782,000	30,000	5,812,000	368,000	398,000	766,000	5,414,000	- 368,000	5,046,000	9,897,000	2,152,000
1903-04 -	8,645,000	11,000	8,656,000	188,000	4,170,000	4,358,000	8,457,000	- 4,159,000	4,298,000	10,912,000	3,283,000
1904-05 -	8,690,000	—	8,690,000	113,000	5,605,000	5,718,000	8,577,000	- 5,605,000	2,972,000	10,941,000	2,943,000
1905-06 -	3,990,000	4,000	3,994,000	1,151,000	5,955,000	7,106,000	2,839,000	- 5,951,000	- 3,112,000	4,032,000	3,797,000
1906-07 -	5,319,000	42,000	5,361,000	410,000	—	410,000	4,909,000	42,000	4,951,000	3,848,000	5,135,000
1907-08 -	6,434,000	12,000	6,446,000	12,000	—	12,000	6,422,000	12,000	6,434,000	2,897,000	7,385,000
1908-09 -	1,079,000	—	1,079,000	239,000	215,000	454,000	840,000	- 215,000	625,000	86,000	3,432,000
1909-10 -	9,232,000	9,000	9,241,000	26,000	2,000	28,000	9,206,000	7,000	9,213,000	6,425,000	2,874,000
1910-11 -	8,540,000	—	8,540,000	378,000	—	378,000	8,162,000	—	8,162,000	6,484,000	8,103,000
1911-12 -	18,342,000	—	18,342,000	114,000	—	114,000	18,228,000	—	18,228,000	15,828,000	8,884,000
1912-13 -	17,795,000	—	17,795,000	630,000	1,929,000	2,559,000	17,165,000	- 1,929,000	15,236,000	19,963,000	11,101,000
Total -	97,359,000 (12 years)	114,000 (12 years)	97,473,000 (12 years)	3,777,000 (12 years)	19,888,000 (12 years)	23,665,000 (12 years)	93,582,000 (12 years)	- 19,774,000 (12 years)	73,808,000 (12 years)	—	64,815,000 (14 years)

ROYAL COMMISSION ON INDIAN FINANCE

## APPENDIX VII.

MEMORANDUM ON THE SALE OF COUNCIL BILLS AND TELEGRAPHIC TRANSFERS  
SUBMITTED BY MR F W NEWMARCH, FINANCIAL SECRETARY

The method of drawing funds from India to meet the Home charges, first of the East India Company, and later of the Secretary of State for India in Council, by means of Bills of Exchange on India, dates back from the early part of the last century. It was mooted in correspondence between the Court of Directors and the Government of India in 1813, it appears to have been practised, though somewhat intermittently, from 1834 down to the time of the Indian Mutiny, and, after an almost entire suspension in the years 1857-62, it was resumed in the latter year, and has been almost continuous ever since.

2 Sales of the Secretary of State's Bills were at first made (1862) monthly, and at a fixed rate of exchange. By a series of changes, fortnightly and then weekly sales were substituted for monthly ones, allotments to the highest bidder took the place of sales at a fixed price, tenders were invited (1876) for telegraphic transfers as well as for bills, on India, reductions were made in the minimum fraction\* of a penny per rupee in the price at which tenders would be received, and applications were invited and received for bills and telegraphic transfers on dates intermediate between the regular fortnightly or weekly sales. Bills and transfers so sold are described as "Intermediates" or "Specials."

3 The present procedure is as follows—On each Wednesday a notice is exhibited at the Bank of England inviting tenders, to be submitted on the following Wednesday, for Bills of Exchange and Telegraphic Transfers on the Government of India, the Government of Madras, and the Government of Bombay. The notice states a limit which the aggregate allotments will not exceed. The tenders are opened at the Bank of England at one o'clock on the day of submission in the presence of the Governor or Deputy Governor, or both, of the Bank, with one or two of the permanent staff of the Bank, generally two members, or at least one, of the Council of the Secretary of State for India, and the Financial Secretary or the Assistant Financial Secretary of the India Office.

4 The Secretary of State does not bind himself to allot the whole amount mentioned in the notice. As a matter of practice, he does not accept any applications at prices lower than 1s 3 $\frac{3}{8}$  $\frac{3}{4}$ d for Bills and 1s 3 $\frac{1}{8}$  $\frac{1}{2}$ d for Telegraphic Transfers. As to a maximum price, see paras 22-27.

5 The price charged for Telegraphic Transfers is ordinarily higher by  $\frac{3}{8}$ d per rupee ( $\frac{1}{8}$ d when either the Calcutta or the Bombay Bank rate exceeds 8 $\frac{1}{2}$  per cent) than that charged for bills. Thus tenders for Telegraphic Transfers at 1s 4 $\frac{3}{8}$  $\frac{3}{4}$ d (or at 1s 4 $\frac{1}{8}$  $\frac{3}{4}$ d with Bank rate 9 per cent or upwards) rank for allotment with tenders for bills at 1s 4d and so on.

6 Subject to this differentiation and to the conditions mentioned in para 4, allotment is made to the highest bidders, and when the total amount tendered for exceeds the amount offered, allotment is made *pro rata*.

7 When the tenders received on a Wednesday have been dealt with, the amount to be offered for tender on the following Wednesday is decided upon. This involves considerations of the average amount required to be drawn weekly up to the end of the financial year so as to work up to the estimate—Budget or Revised—for the year (but see paras. 15 and 16), of the strength or weakness of the market, crop and trade conditions, and so on.

8 The amount is also decided up to which applications for Intermediate Bills or Transfers will be accepted up to the following Wednesday, at prices higher by  $\frac{3}{8}$ d per rupee for Bills and Transfers than those at which allotments have just been made (see, however, para. 27).

\* At first (January 1862) a farthing, reduced to  $\frac{1}{8}$ th in March 1862, to  $\frac{1}{4}$ th in January 1875, and to  $\frac{3}{8}$ th in 1882.

† See note to paragraph 26.



9 When, as frequently happens, those allotments have been made at more than one price for Bills and for Telegraphic Transfers respectively, the prices fixed for "Intermediates" may be  $\frac{1}{2}d$  above the higher ones, or above the lower ones, at which those allotments have been made, but they must be  $\frac{1}{2}d$  higher than the lowest prices at which allotments have been made.

10 The allotments made each Wednesday, the amount announced to be tendered for on the following Wednesday, and the arrangements made for the sale of "Intermediates," are laid before the next meeting of the Finance Committee (usually on the same day), and subsequently before the Council of the Secretary of State, for approval, together with particulars of the amount sold since the beginning of the financial year, the amount remaining to be sold so as to work up to the estimate of the financial year, and any other information having an important bearing upon future sales.

11 Since 1905 Telegraphic Transfers on India have sometimes been issued in payment for sovereigns which the Secretary of State has purchased in transit from Australia or from Egypt to India. This practice has been resorted to as a means of checking an excessive accumulation of sovereigns in the Paper Currency Reserve in India and obviating the expense entailed in relieving the accumulation by shipping them to London (*cf* para 23 of the Note on the Paper Currency Reserve, page 242).

Table No 1 (page 227) gives the amounts of drawings and the average rate of exchange at which they were effected for each year from 1862-3 to the present time. The published regulations governing the sale of Bills and Transfers and the conditions under which sovereigns are sometimes purchased in transit to India against Telegraphic Transfers will be found printed in their present form as Appendix A (pages 228-9).

12 The method of transferring funds from the treasuries of the Government of India to that of the Secretary of State on a large scale by the sale of Council drafts on India is rendered possible by the fact that India has ordinarily a very large trade balance in her favour. Except in years of very deficient crops and unfavourable trade this balance is so large as to be only partly met by the remittances which banks and commercial houses are enabled to make to India by purchasing the Secretary of State's drafts, a considerable portion of the world's debt to India remains to be discharged by other means. Before the closing of the Indian Mints to the free coinage of silver in 1893 this supplemental remittance was effected by shipments of silver to India to be coined into rupees, since the closing of the Mints it has taken the form of shipments of sovereigns which are received at the Indian Mints and Treasuries in exchange for rupees at the rate of 15 rupees to 11.

13 So long as the amount which the Secretary of State requires to draw from India by means of his Council drafts is well within the amount owing to India in settlement of the balance of trade in her favour, and so long as the Secretary of State sells his drafts at rates at which they are not a more expensive mode of remittance (see paragraph 20 below) than shipments of sovereigns to India, he can have no difficulty in drawing the funds he requires and maintaining exchange at the rate of 1s 4d to the rupee. These conditions have been fulfilled from 1899 down to the present time\* with the exception of the period covered by the closing months of 1907 and a part of 1908. The crisis was made unusually severe by the effects of a very deficient monsoon in 1907, followed by an extraordinarily acute depression of trade over the whole world, towards the end of the same year.

14 The present system of regulating the amount of the drawings of each year, which has been in force for many years, is as follows.—The Government of India, in preparing their Budget for a coming year, frame their estimate of the amount which, after meeting the various other anticipated demands upon their treasury balances and providing for the retention of sufficient balances at the close of the year, they anticipate that they will be able to remit to the Secretary of State during the year through the medium of his sales of Council Bills, towards defraying the expenditure

\* See appended Table IV, pages 234-6.

of the India Office on revenue and capital account. In this estimate account is necessarily taken of the amount which can advantageously be raised by borrowing in India towards providing for capital expenditure. (It may be remarked, incidentally, that whereas until recently the sterling loans of the Secretary of State could be issued in London more cheaply than the Rupee loans of the Government of India in that country, of late years the tendency has been in the opposite direction. Thus, in 1912 the 3½ per cent loan of the Government of India for 3 crores of rupees was issued at an average price of 96½, whereas the India sterling loan for 3,000,000L, underwritten, was issued at 93.)

15 The Budget estimate of drawings for the year having been arrived at as described in the last paragraph, their actual distribution over the twelve months is regulated as follows.—The Indian year, as is well known is divided broadly into two seasons, the busy season, extending roughly from the 1st October to the end of March, and the dull season extending from about the beginning of April to about the end of September. Thus the financial year begins with the dull season, during which the demand for the Secretary of State's Bills as a means of remittance of funds by the public from London to India is less strong than during the autumn and winter. The difference between the two seasons in this respect is illustrated by the attached Table No III (page 233)

16 In a year of favourable seasons and great trade activity it might be possible (if those favourable conditions could be foreseen) for the Secretary of State to restrict his drawings during the first half of the financial year *ie*, the dull season, to an almost insignificant amount, and to meet almost the whole of his requirements during the second half, *ie*, the busy season, when he might sell his drafts at a higher rate than they would command in the dull season. But in carrying out this apparently profitable policy he is limited by the following considerations—(1) he requires funds of considerable amount to meet current outgoings during the first as well as the second half of the financial year, (2) the funds which he draws from India in the early part of the financial year, if not immediately required, earn interest in this country, whereas in India no profitable use would be found for them under other than exceptional conditions, so that the profit derived from lending out these funds, though sometimes at a low rate of interest, must be counted as a set off to the somewhat higher rate of exchange at which they can be remitted home in the later months of the financial year as compared with the earlier ones, (3) a good market for Council Bills in the winter months cannot be counted upon until the monsoon has declared itself, the experience of 1907-8 (see Table III, page 233) illustrates this, and (4) the market is full of surprises, one must always be prepared for the unexpected. This is illustrated by a comparison of the years 1911-12 and 1912-13. In both years the monsoon was good, in 1912-13 if anything more satisfactory than in 1911-12, and giving prospect of at least as active a winter business as that of 1911-12. But after a short spell of very keen bidding for the Secretary of State's drafts in December 1912 the demand fell off in a remarkable manner, as indicated by Table V, page 237, and chart attached thereto. (5) If the drawings for the year exceed the estimate, the excess proceeds can be used for the reduction or avoidance of debt, either in the year in which they are received or in the next year (*see para 19*)

17 It is possible, after the event, to attribute a reduced demand such as occurred in 1912-13 to a combination of causes, such as reduced exports of opium, smaller demand for rice from China, deficient rains in the north of India in January-February, the near eastern situation, stringency in the London Money Market, and so on, but the cumulative effects of these causes could not be gauged at the beginning of December 1912, still less could they be foreseen at the earlier date when, after a good monsoon was assured, the prospect of an active winter business seemed tolerably certain. The inference to be drawn from cases of this kind seems to be that in the regulation of the sales of the Secretary of State's drafts the safe course is to take advantage of a moderately good demand for remittance, when it shows itself, during the first half of the financial year, or dull season, rather than to rely too much on selling the great bulk of the

drafts of the year at a higher rate of exchange during the last few months of it

18 Some of the critics of the India Office seem to think that the Secretary of State should limit his drawings in two ways, viz., (1) he should not draw more than the amount that he has budgeted for in any year, and (2) he should not sell his drafts materially below gold point, meaning the rate of exchange at which sovereigns are liable to be taken from the Bank of England for shipment to India in competition with his drafts. The rate of exchange at which this is liable to happen is assumed to be  $1s\ 4\frac{3}{4}d$  per rupee for Telegraphic Transfers and  $1s\ 4\frac{1}{2}d$  for Council Bills.

19 Both these propositions are open to objections. The first takes no account of the cases where, owing to a good monsoon and general prosperity, the Government of India find themselves in a position towards the end of a financial year to remit home funds far in excess of what they could expect to remit when the estimates of the year were framed. Such excess funds are properly applicable to the reduction of the amount which the Secretary of State would be otherwise obliged to borrow to meet capital expenditure. In the interval before being so used their possession by the Secretary of State secures him *pro tanto* against the consequences of a possible fall in exchange.

20 The second proposition is open to the objection that sovereigns flow into India freely at certain seasons and under certain conditions from Australia and from Egypt when the rates of exchange which the Secretary of State's Bills and Transfers will command are materially below those regarded as "gold point." This may be seen from Table VI (page 238) which shows that during the five months May to September 1912 there was a net import of £7,662,535 in sovereigns into India, while the Secretary of State's drafts were sold almost entirely at rates of  $1s\ 4\frac{1}{2}d$  and  $1s\ 4\frac{1}{8}d$  for Bills and Transfers respectively. There is excellent authority for saying that sovereigns are sometimes shipped from Australia and from Egypt to India at a price which represents only the equivalent of Secretary of State's Bills at slightly less than  $1s\ 4\frac{1}{2}d$ . Experience indeed shows that even from London sovereigns are liable to be shipped to India in competition with Council Bills at  $1s\ 4\frac{3}{4}d$ , if not lower.

Thus if the Secretary of State were to hold out for prices of  $1s\ 4\frac{1}{2}d$  and  $1s\ 4\frac{3}{4}d$  for his Bills and Transfers respectively he would even in a very busy season run the risk of losing his market for remittance, he would cause the Paper Currency Reserve in India to become overloaded with sovereigns, and then, whether for the purpose of relieving its depletion or of meeting his own Treasury requirements, he would be obliged to bring sovereigns home from India at the cost of freight, insurance, &c. It is clearly more advantageous to draw the funds which he requires to draw from India, and to avoid excessive accumulations of sovereigns there, by selling his drafts at a slightly lower rate, though it is right that the rate should be pitched as high as is consistent with the attainment of those two objects.

21 Sometimes, especially in seasons of active trade, the demand for the Secretary of State's drafts on India far exceeds the amount that he can draw from the treasuries of the Government of India without reducing their balances below a safe limit. The question then arises whether he should restrict his drafts to the amount that can conveniently be drawn from the Treasury balances in India, and allow the balance of the trade demand to satisfy itself by shipments of sovereigns to India, or whether by the use of other resources to be referred to below (see paragraph 22), he should continue to sell drafts beyond his actual immediate needs to meet the requirements of trade. The inconvenience of causing sovereigns to accumulate beyond a certain point in the Paper Currency Reserve in India has already been referred to. The injurious effects on Indian trade of a cessation of the Secretary of State's sales of Bills and Telegraphic Transfers may be explained as follows. The situation contemplated is naturally most likely to arise towards the close of the financial year, i.e., in January, February or early in March. At that season the demand for remittance to India is usually strongest. It may become acute very suddenly. The Secretary of State's Telegraphic Transfers afford the means, which no other mode of remittance does,

of relieving in a very short space of time a money stringency which otherwise might become serious, even disastrous to Indian trade. Thus (Command Paper 6619 of 1913, page 4) in 16 days in January–February 1912, Telegraphic Transfers on India were sold for over £3,500,000, enabling that sum (5½ crores of rupees) to be liberated from Government treasuries and passed into the hands of the public. But had the shipment of sovereigns from London been the only method of remittance available, not a single sovereign's worth of rupees could have been released in India by that method during the same period, and consignments from Egypt and Australia were, at the time, very small.

22 This question of the propriety of selling Council drafts for the convenience of trade and apart from the actual immediate requirements for India Office disbursements, engaged attention so long ago as the end of 1897. To get over the inability of the Government of India to meet from their Treasury balances drafts on India of sufficient amount to satisfy the trade demand and relieve the stringency of the Indian money markets (the Calcutta and Bombay Bank rates being at the time 11 and 12 per cent respectively) an Act of the Indian Legislature was passed (Act II of 1898)\* authorising the issue in India of Paper Currency notes against gold held by the Secretary of State in Council as part of the Paper Currency Reserve in London. At the same time the Secretary of State issued a notice (21st January 1898) that he was prepared to sell until further notice Telegraphic Transfers on India at a price not exceeding 1s 4½d per rupee. From the point of view of the public the effect of this was to enable banks and merchants in India to obtain rupees from the hands of Government at a price about equivalent (during the prevalence of the rates of interest mentioned) to that at which (allowing for interest on money besides shipping and insurance charges) they would have been able to obtain them in exchange for sovereigns shipped from London, but while this mode of remittance was not at the time appreciably cheaper, if at all, than that of shipping sovereigns, (and would now be dearer at any time when the rate of interest in India is 8 per cent or less) it had the advantage, of the very greatest importance at a time of extreme monetary stringency, of being much the more expeditious.

23 From the point of view of Government the effect of the transaction was, that the Secretary of State by depositing in gold at the Bank in England a given sum from the proceeds of his sales of Telegraphic Transfers as part of the Paper Currency Reserve enabled the Government of India to issue notes of corresponding amount against such gold, wherewith to meet the Telegraphic Transfers drawn against them.

24 The convenience to trade interests resulting from this arrangement was very great, and when in January 1900 the Secretary of State felt obliged, owing to apprehensions of a dangerous reduction of the quantity of rupees held by the Government of India (Financial Despatch to India, No 29 of 1900)†, to withdraw the notice of 21st January 1898 (sale of Telegraphic Transfers at 1s 4½d until further notice) the announcement was received with consternation in commercial and banking circles in India. The Associated Exchange Banks, Bombay, telegraphed to the Government of India (16th January 1900)‡ that “acute financial stringency prevails, caused by sudden withdrawal without previous notice of facility granted 21st January 1898. Banks respectfully protest against the sudden withdrawal and beg immediate steps be taken to relieve critical situation and avert panic.” Protests were also received from the Bombay and Bengal Chambers of Commerce, with applications for temporary loans to the Presidency banks, but these the Government of India were unable to grant.

25 Although the Secretary of State withdrew his offer to sell Telegraphic Transfers at 1s 4½d, he continued to sell at higher prices, indeed as high as 1s. 4¾d. To this action the Government of India objected, they desired

\* The duration of this Act was only six months. Its provisions were extended for a further period of two years by Act VIII of 1898, and for a further two years by Act VIII of 1900, which also gave the Secretary of State power to expend the gold held by him as part of the Paper Currency Reserve in the purchase of silver for coinage. The provisions of this Act were made permanent by Act IX. of 1902.

† Not printed.

‡ 1906s.

"to see exchange remain steady *within* the gold point," and added that "this has universally been understood to be the settled intention of Government" The demand for remittance to India satisfied itself for the time being, though at the cost of severe monetary stringency in the Indian markets, and the evils attendant thereon, by imports of gold into India, and the question of again selling drafts on India without limit at a maximum price did not recur until January 1904, when exchange again reached "gold point"

26 The Secretary of State then notified his readiness to sell "intermediate" Bills until further notice at a rate not exceeding 1s 4½d per rupee, and as the price of Telegraphic Transfers was at that time fixed at ¼th\* of a penny above that of Bills, the price at which applications for Telegraphic Transfers were accepted without limit became 1s 4⅞d instead of 1s 4¾d, the rate announced in 1898

27 The practice since 1904 has been as follows —(1) invariably to sell Bills without limit when the price is as high as 1s 4½d, (2) to sell Transfers without limit at 1s 4¾d if the Indian bank rates do not exceed a certain rate (6 per cent prior to January 1906, 8 per cent subsequently (see footnote), and at 1s 4⅞d if they exceed that rate These rates (see para 20 above) are by no means prohibitive to the export of sovereigns from London to India, still less to their export thither from Australia or Egypt On the contrary they are so high as almost to place the Secretary of State's drafts out of competition with the remittance of sovereigns, except at times of great monetary stringency in India, when rapid transmission of funds to that quarter is the consideration of supreme importance The question whether by restricting sales of Council drafts to allow exchange to reach so-called "gold point," or to sell freely, a course which by no means prevents the concurrent importation of sovereigns into India, is one which must be decided month by month and week by week, according to the trade demand for telegraphic transfers and the urgency of the need for drawing funds from the treasuries of the Government of India to that of the Secretary of State

28 The governing considerations, stated in order of importance, seem to be the following —

- (1) To draw from the treasuries of the Government of India during the financial year the amount that has been laid down in the Budget as necessary to carry out the Ways and Means programme of the year
- (2) To draw, if practicable, such further amount as may be required to pay for any purchases of silver that may be made for coinage during the year, not having been provided for in the Budget (Such purchases may in the alternative be paid for from gold held in the currency reserve in London, as provided for by India Act VIII of 1900, when the amount of gold so held is sufficient, but if the market for the Secretary of State's Bills is strong enough to enable him to pay for his purchases of silver by additional sales of Bills, there is an advantage in doing so and keeping the reserve of gold intact, to support exchange in a crisis like that of 1907-08, see paragraph 13)
- (3) To draw such further amount from the treasury balances of the Government of India as an unexpectedly prosperous season may enable them to spare, to be used towards the reduction or avoidance of debt, and as the state of the market for the Secretary of State's drafts may allow to be drawn at a reasonably high rate of exchange

\* The difference is calculated to represent the approximate cost of interest on a rupee in India for the period intervening between the date when a Telegraphic Transfer is payable there, and that when a Bill issued on the same date is payable At the date in question (1904) it was the practice to make a difference of ½d between the prices of Bills and Transfers when the Indian bank rates did not exceed 6 per cent, and a difference of ¼d when the bank rates were higher In 1906, in view of the reduction which had taken place in the time occupied by the mails from this country in reaching India, and in the freight on gold, it became the practice only to make a difference of ¼d between the prices of Bills and Transfers when the Indian bank rates reached 9 per cent

- (4) To allow a sufficient amount of sovereigns to flow into India to supply the demands of the public
- (5) To sell bills and transfers, if necessary, beyond the amount required under (1), (2), and (3), to meet the convenience of trade, *i e*, to avert an injurious stringency of money in the markets of India.

29. The relative importance of considerations Nos 4 and 5 must be largely dependent on the conditions existing at any given time. When the stock of gold held in the Paper Currency Reserve in India, which the Government are prepared to release freely in exchange for notes or silver, is very large, the need for restricting sales of Council drafts so far as to allow of a considerable influx of gold into the country is clearly less important than when the stock so held is low. Similarly the question whether to pay for purchases of silver from the proceeds of sales of bills, sold for the purpose, or from gold in the Paper Currency Reserve, must depend, to some extent, on the quantity so held.

30. The importance of selling drafts to meet the convenience of trade has been referred to above (paragraph 21) and the consternation caused in commercial circles by the Secretary of State's withdrawal in January 1900 of his offer to sell Telegraphic Transfers at a price not exceeding  $1s. 4\frac{5}{8}d$  has been described (paragraph 24). The practice is sometimes misrepresented as being adopted in the interests of the City of London, not those of India. But the events of 1900 afford an answer to this charge. Further, the practice is referred to regularly in the Financial Statements of the Government of India as part of the settled financial policy of Government (see Command Paper, No 6,619, 1913, IV) and meets with little or no criticism in the Legislative Council. There is abundant evidence that its advantages are appreciated by the great majority of the business community in India, and questioned only by a few.

Its advantages may be summed up as follows —

- (1) It serves to avert or relieve extreme stringency in the money markets of India, which would be detrimental to the commercial prosperity of the country.
- (2) It serves to check excessive accumulations of gold in the Paper Currency Reserve in India which might otherwise have to be lightened by expensive methods (see above, paragraph 20).
- (3) It serves, sometimes, to avert extreme stringency in the London Money Market which would be created if the Secretary of State, by refusing to sell drafts for the convenience of trade, forced large quantities of sovereigns to be taken from London for India. This consideration may not be valued by some of the critics of the policy of selling drafts freely, because their attitude implies an underlying assumption that what is beneficial to the interests of London cannot be good for India, but those who approach the question with an open mind will probably recognise that any serious disturbance to the greatest money market of the world cannot but be injurious to the trade of India, and to her interests as a frequent borrower in the London market, so that free sales of Council drafts for the purpose of averting such a disturbance may, at times, be fully justified, and indeed urgently required, in the interests of India.

31. It has been shown above (paragraph 22) how the Indian Paper Currency Act, by empowering the Secretary of State to hold a portion of the Indian Paper Currency Reserve in the shape of gold in London, enables him to meet a demand for Council drafts on India at times when it might not be convenient or possible for the Government of India to meet them from its treasuries. This power introduces a valuable element of elasticity into the Indian currency system. It would not, of course, be desirable that more than a moderate portion of the total metallic reserve should be held in London, in gold, but, subject to that proviso, the system is useful in connection, not only with the sale of Council drafts, but also with the purchase of silver and as a support of exchange. The latter advantage arises in this way. At a time when the state of exchange, as in the crisis of

1908-9, does not permit of the Secretary of State drawing funds from India to meet his Treasury requirements by the sale of Council Bills, he may release funds for the purpose from the portion of the Paper Currency Reserve held in London, the Government of India making simultaneously a corresponding transfer of rupees or gold from the Treasury balances to Paper Currency Reserve, so that the metallic portion of the latter be kept intact, or cancelling a portion of the notes held in the Treasury balances. The larger the amount of gold accumulated in the Paper Currency Reserve in London the greater the extent to which the Secretary of State will be able to supplement from this quarter the resources towards meeting an exchange crisis afforded by the Gold Standard Reserve. It is hardly necessary to add that accumulated balances in his Treasury will serve towards the same end.

32 A further purpose served by the sale of Council Bills when the demand for these is sufficiently strong is the remittance to this country of the profits on the coinage of rupees, on account of the Gold Standard Reserve 9,271,813*l*, were so drawn in the years 1901-2 to 1907-8. During the exchange crisis of 1907-9 bills on London were sold by the Government of India and met by the Secretary of State in Council from Gold Standard Reserve, to the amount of 8,058,000*l*, the Government of India setting aside an equivalent sum from the proceeds of their sales of bills in rupees. Thus the effect of the transaction was to transfer Gold Standard Reserve funds amounting to 8,058,000*l* from London to India. When exchange recovered after the crisis of 1907-9, the sales of Council drafts were again utilised, after meeting the Treasury requirements of the Secretary of State, to re-transfer Gold Standard Reserve funds from India to London, and the amount re-transferred, and transferred in addition,\* in the years 1908-9-1910-11 was 10,181,487*l*. During the year 1912-13 there has been a remittance of 1,200,000*l*, profits on coinage, from India to England, this has been effected not by sales of Council Bills but by transfers between Gold Standard Reserve and Currency Reserve, *i.e.*, 1,200,000*l* has been transferred, in gold, from Paper Currency Reserve to Gold Standard Reserve in London, and a corresponding sum has been transferred from Gold Standard Reserve to Paper Currency Reserve in India. This affords a further illustration of the elasticity introduced into the currency system by the holding of a part of the Paper Currency Reserve in London.

33 The portion of the Gold Standard Reserve held in rupees in India has been utilised on one or two occasions in the past as a resource from which the Government of India might borrow, paying interest on the loan, in order to meet the Secretary of State's drawings when it has not been convenient to meet them from Treasury balances or through currency (*i.e.*, by the Secretary of State setting aside gold from the proceeds of his sales, as an addition to the Paper Currency Reserve, and the Government of India taking out notes against the gold set aside). But it has been recognised and put on record in a Despatch of the Secretary of State to the Government of India that such utilisation of the Gold Standard Reserve funds in their hands must be treated as entirely exceptional and only to be resorted to in cases of extreme emergency.

34 It may be useful to conclude this note with some general remarks on the working of the system of drawing funds from India by means of Council drafts since 1899, when the sovereign was made legal tender in India, as compared with its working before that date.

35 Down to 1872-3 the rate of exchange at which the Secretary of State was able to sell his drafts did not fall materially below 2*s* the rupee. In that year the average rate was 1*s* 10 815*d*. From thence onwards the decline in exchange was a continuous source of anxiety and disturbance to those responsible for the finances of India. In 16 out of 27 years ending with 1898-9, the Secretary of State was unable to realise by the sale of Bills and Transfers the amount that he had budgeted to receive (*see* Table II, page 232), and on several occasions he was compelled to suspend the sales altogether.

\* Prior to the crisis of 1907-8 a portion of the reserve amounting to 4,000,000*l* had been held in rupees (6 crores) in India. This portion was reduced in 1910-11 to 290 lakhs of rupees = 1,933,333*l*.

36 The worst effect of the decline in exchange was felt in the increased amount which had to be drawn from the revenues of India to meet the Home charges. Thus, in the year 1895-6, the sum realised by the sale of Council drafts was 17,664,492*l.*, representing Rs 31,08,54,373, at an average rate of 1*s* 1*6*38*d* per rupee. Had the same sterling sum been remitted at the average rate obtaining in 1872-3, the sum in rupees representing the remittance would have been Rs 18,63,17,925 instead of Rs 31,08,54,373, a difference of Rs 12,45,36,448. Moreover the Government of India was confronted with the prospect of a still further fall in exchange\* and, a further increase in the burden of the Home charges.

Other burdens imposed upon the revenues of India by the fall in exchange were (1) the cost of granting exchange compensation allowance, (2) enhanced charge for the pay of British troops in India, consequent on the fall in exchange, (3) the concession of "privileged" rates of exchange for the conversion of (a) pensions expressed in rupees, when paid in countries where the rupee is not legal tender (1*s* 9*d*) and (b) furlough allowances to civil officers taking leave to Europe (at 1*s* 6*d* per rupee).

The additional charge under heads (1) and (2) was a very uncertain amount, varying according to the rate of exchange, in 1893-94 these items were estimated at 63 and 83 lakhs of rupees respectively, the cost of concessions 3 (a) and 3 (b) was also variable, the former costing about 14,000*l.* in the year in which it was imposed (1890-1), and the latter (1893-4) about 27,000*l.*

37 Indirectly also the fall in exchange has imposed further burdens on the exchequer by contributing to an extent which it would be impossible to calculate in conjunction with other causes such as the increased cost of living in India, to force upon Government the necessity of increasing salaries of various appointments and branches of the Service.

To meet these burdens additional taxation had to be imposed in the period 1885-1895, estimated to yield in the aggregate about 530 lakhs of revenue (equivalent at the *present* rate of exchange to about 3,533,000*l.*), as follows —

- 1886-87, an Income Tax, estimated to yield 102 lakhs of rupees per annum
- 1888-89, increased salt duties, estimated to yield 172½ lakhs of rupees per annum.
- 1888-89, import duty on petroleum and minor measures affecting Burma, 20 lakhs of rupees per annum
- 1894-95, enhanced and widened Customs duties, 135 lakhs of rupees per annum
- 1895-96, cotton import and Excise duties, 145½ lakhs of rupees per annum

A total estimated increase of revenue by 575 lakhs of rupees, against which, however, has to be set off a net reduction in cotton duties estimated at about 45 lakhs, effected in January 1896.

38 The steps by which exchange was fixed at a stable rate of 1*s* 4*d* per rupee had the effect of placing a limit to burdens on the exchequer which otherwise seemed to possess indefinite and incalculable possibilities of expansion.

39. Since exchange was placed on its present basis one of the most serious uncertainties in Indian budgeting has been removed. In only three years out of 14, since 1898-9, has the Secretary of State been unable to realise by the sale of Bills the amount for which he budgeted (*see* Table II, page 232).

40 There is abundant expert testimony to the effect that Indian trade generally has benefited by stability of exchange. Exports do not appear (*see* Table IV, pages 234-6) to have been injuriously affected, as some critics of the

\* As a matter of fact the price of silver has fallen in the interval since the introduction of the present currency system as low as 21½*d*. per oz., a price at which the out-turn cost of a rupee was a little over 8*d*.; while at the highest price of silver reached in the same period, 33½*d*. per oz. the cost of the rupee would be less than 1*s* 1*d*.



present currency policy predicted that they would be, by the establishment of a rate of exchange much above the intrinsic silver value of the rupee Revenue has shown a steady expansion, enabling successive reductions of taxation to be effected, viz —

	£
(1) 18 March 1903. Reduction of salt tax, estimated sacrifice of revenue	1,095,000
(2) 1903-4 Exemption from Income Tax of private incomes below Rs 1,000 per annum	240,000
(3) 1905 Reduction of salt tax	1,220,000
(4) 1905 Abolition of famine cesses, postal reductions	200,000
(5) 1906 Abolition of certain land cesses	548,000
(6) 1907 Reduction of salt tax	1,267,000
(7) 1907 Postal concessions	146,000
Total	<u>£4,716,000</u>

41 The one addition to taxation to be set against these repeated remissions of imposts made since the introduction of the present currency system, is the enhancement of certain customs, excise and stamp duties effected in 1910

42 This was estimated to yield additional revenue amounting to 1,126,000*l* and was resorted to in view of the approaching reduction and gradual extinction of the opium revenue

43 The net results are that, in the period dating from the full introduction of the present currency system (1899); there has been a net reduction of taxation estimated at about 3½ millions sterling, coincident with a loss of revenue from opium amounting to nearly 2,000,000*l*\*, and the Government of India are able, on the basis of this reduction of revenue, to budget for a surplus of 1,326,300*l* in 1913-4

\* Difference in rupees between net revenue 1898-9, and Budget estimate, 1913-4, converted at 1*s* 4*d* per rupee, as follows —

	£
1898-9	2,230,308
Budget 1913-4	309,600
	<u>£1,920,708</u>

The loss of revenue is much greater in comparison with the figures of more recent years, e.g., in comparison with the net revenue of 1910-11 it is nearly 6,000,000*l*

**Table I.**  
**COUNCIL BILLS AND TELEGRAPHIC TRANSFERS**

AMOUNTS DRAWN ON INDIA DURING THE PERIOD FROM 1862-63 TO 1912-13,  
WITH THE AVERAGE RATE OF EXCHANGE

Year	Amount	Average rate	Year	Amount	Average rate
1862-3	£ 6,641,576	1 11 $\frac{1}{4}$	1888-9	£ 14,262,859	1 4·379
1863-4	8,979,521	1 11 $\frac{1}{4}$	1889-90	15,474,496	1 4·566
1864-5	6,789,473	1 11 $\frac{1}{4}$	1890-1	15,969,034	1 6 089
1865-6	6,966,116	1 11 $\frac{1}{4}$	1891-2	16,093,854	1 4 733
1866-7	5,067,589	1 11	1892-3	16,532,215	1 2·985
1867-8	4,137,285	1 11 $\frac{1}{2}$	1893-4	9,530,235	1 2 547
1868-9	3,705,741	1 11 $\frac{1}{2}$	1894-5	16,905,102	1 1 100
1869-70	6,980,122	1 11 $\frac{1}{2}$	1895-6	17,664,492	1 1 638
1870-1	8,443,509	1 10 $\frac{3}{4}$	1896-7	15,526,547	1 2 450
1871-2	10,310,339	1 11 $\frac{1}{2}$	1897-8	9,506,077	1 3 406
1872-3	13,939,095	1 10 75 $\frac{1}{4}$	1898-9	18,692,377	1 3 978
1873-4	13,285,678	1 10 351	1899-1900	19,067,022	1 4 068
1874-5	10,841,615	1 10 156	1900-1	13,300,277	1 3 973
1875-6	12,389,613	1 9 626	1901-2	18,539,071	1 3 988
1876-7	12,695,800	1 8 508	1902-3	18,499,946	1 4 002
1877-8	10,134,455	1 8 791	1903-4	23,859,303	1 4 049
1878-9	13,948,565	1 7 794	1904-5	24,425,553	1 4 045
1879-80	15,261,810	1 7 961	1905-6	32,166,973	1 4 042
1880-1	15,239,677	1 7 956	1906-7	33,157,196	1 4 083
1881-2	18,412,429	1 7 895	1907-8	16,232,062	1 4 029
1882-3	15,120,521	1 7 525	1908-9	13,915,426	1 3 931
1883-4	17,599,805	1 7 536	1909-10	27,096,586	1 4·041
1884-5	13,753,909	1 7 308	1910-11	26,783,303	1 4 060
1885-6	10,292,692	1 6 254	1911-12	27,058,550	1 4 083
1886 7	12,136,279	1 5 441	1912-13	25,759,706	1 4 058
1887-8	15,358,577	1 4 898			

## Appendix A

### I.

#### SALE OF BILLS AND TELEGRAPHIC TRANSFERS ON INDIA

In supersession of previous notifications, the Secretary of State for India in Council publishes the following particulars as to the method of selling Bills and Telegraphic Transfers on India —

##### *Sale of Bills*

1 The Secretary of State for India in Council is prepared to allot on Wednesday in each week Bills of Exchange on the Government of India, the Government of Madras, or the Government of Bombay, of an aggregate amount not exceeding that announced in a notice which will be previously exhibited at the Bank of England

2 Tenders for such Bills will be opened at the Bank of England on each Wednesday at 1 o'clock

3 Tenders must be made on forms which can be obtained on application at the Chief Cashier's Office at the Bank of England. They must be delivered, under cover, at the said office

4 Any tender may be for the whole amount shown in the announcement or for any portion thereof not being less than Rs 10,000. The amount of the tender or tenders submitted by or on behalf of any one person, firm, or company must not in the aggregate exceed the amount shown in the announcement. Tenders which appear to the Secretary of State in Council to be submitted in direct or indirect infringement of this rule will be rejected

5 Each tender must state the rate of exchange at which the applicant is prepared to purchase a Bill or Bills of the amount for which he tenders or any less amount that may be allotted to him. The rate of exchange must be expressed in pence or in pence and a fraction of a penny per rupee, any fraction that is used must be either one thirty-second of a penny or a multiple of one thirty-second of a penny.

6 In the event of two or more tenders being made at the same rate, and the amount to be allotted being less than the amount of both or all, a *pro rata* allotment will ordinarily be made, subject to the condition that no Bill will be granted for a less amount than Rs 5,000

7 As soon as practicable after the opening of the tenders the result will be made known at the Bank, and the *maximum* amount to be allotted on the following Wednesday will ordinarily be announced at the same time

8 On Wednesday afternoon persons who have tendered will, on application at the Chief Cashier's Office, be informed whether any allotment has been made to them

9 Payment for Bills allotted on a Wednesday must be made on or before the following Tuesday

10 Those applicants to whom an allotment of Bills has been made will be furnished with a form to be filled up with the particulars of the Bills desired, which must be left at the Chief Cashier's Office before 12 o'clock on the day preceding that on which the Bills are required, the Bills will be delivered next day on payment in cash not later than 2 o'clock

11 In addition to the tenders mentioned above for Bills to be allotted on Wednesdays at 1 o'clock, applications may be made on any Wednesday after

the result of the allotment has been announced (but not later than 3 o'clock), on Saturday between 11 and 12 30, and on any other day between 11 and 3, at the Chief Cashier's Office of the Bank of England for intermediate Bills drawn on the Government of India, the Government of Madras, or the Government of Bombay. No pledge can be given that such applications will be complied with, but, if intermediate Bills are granted, the following condition will be observed, viz, that if, at the preceding allotment, Bills have been allotted to the full amount previously announced, intermediate Bills will only be granted at rates ~~exceeding by~~ at least one thirty-second of a penny per rupee the minimum price at which an allotment was made. If, however, the minimum price has exceeded 1s 4 $\frac{3}{4}$ d the rupee this condition will not be enforced, as the Secretary of State in Council is prepared to sell until further notice intermediate Bills at 1s 4 $\frac{1}{4}$ d the rupee.

12 If an intermediate Bill is granted on a Tuesday, payment must be made on the same day, if a Bill is granted on any day other than Tuesday, payment must be made not later than the following Tuesday.

#### *Sale of Telegraphic Transfers*

13 Applications for Telegraphic Transfers on the Government of India, the Government of Madras, and the Government of Bombay, will be received on behalf of the Secretary of State for India in Council at the Chief Cashier's Office at any time between 11 and 3, except on Saturdays, when the hours are from 11 to 12 30. Those which are received on Wednesday before 1 o'clock will be opened at the same time as the tenders for the weekly allotment of Bills, and, if transfers are then granted, the fact will be announced at the same time and in the same manner as the allotment of Bills. Transfers will be granted only in thousands of rupees, and in no case for less than one lakh, except that an applicant to whom a transfer has been granted at the time of the weekly allotment of bills may be allowed an additional transfer of an amount (in thousands of rupees) less than one lakh, provided that such additional transfer is paid for (at the price fixed for the time being by the Secretary of State in Council) on the same day as the transfer originally granted. Applicants tendering on Wednesday before 1 o'clock both for bills and transfers, may, if they wish it, insert in their tender for transfers a request that, if that tender be not sufficiently large to secure an allotment of one lakh of rupees, it may be increased to the necessary extent by reduction of their tender for Bills.

14 If a transfer is granted on a Tuesday, payment must be made on the same day, if a transfer is granted on any day other than a Tuesday, payment must be made not later than the following Tuesday.

15 The necessary telegram to enable the amount of a transfer to be issued to the recipient in India will be despatched on the day on which payment for the transfer is made at the Bank of England.

#### *General*

16 The sales of Bills and Telegraphic Transfers, and the rates at which they have been made, will be from time to time announced at the Bank of England, and the total amount sold up to date since the 1st of April, with the sterling realised, will be similarly announced on each Wednesday morning at 11 o'clock.

17 The Secretary of State in Council, while making the foregoing announcement as regards the practice to be ordinarily pursued, reserves to himself the right of rejecting the whole or any part of any tender and of departing in any respect without previous notice from the terms of this announcement, should circumstances render it expedient.

India Office,  
25th August 1909

## II.

CONDITIONS on which the Secretary of State for India in Council is willing until further notice to purchase Sovereigns in Transit from Australia or Egypt by granting Telegraphic Transfers on Calcutta, Madras, and Bombay

1 A list is kept at the India Office of banks and firms from whom the Secretary of State is prepared until further notice to purchase sovereigns under these rules for delivery in London

2 Purchases will not be made from institutions whose head offices are not in the British Empire unless the offer of sale is accompanied by the guarantee of an approved English bank.

3 The sovereigns are to be consigned to the Secretary of State for India in Council, London, and the bills of lading made out in his favour, or, if the sovereigns are not so consigned, the bills of lading are to be endorsed in his favour. In every case the bills of lading must be posted to the Under Secretary of State, India Office, and a letter addressed to him by the seller in the form annexed

4 Sovereigns consigned to the Secretary of State from Egypt must be shipped in a vessel of a regular line approved by the India Office.

5 The date of issue of the telegraphic transfers and the rate of exchange are subject to the following conditions —

*A — In the case of Gold consigned from Australia*

At the option of the institution tendering the sovereigns, transfers will be granted either—

- (1) Ten days after the departure from Fremantle of the vessel in which the sovereigns are shipped, at the rate of 1s 4d the rupee, or
- (2) On the day following the departure of the vessel from Fremantle, at the rate of 1s 4½d the rupee

*B — In the case of Gold consigned from Egypt*

At the option of the institution tendering the sovereigns, transfers will be granted either—

- (1) On the advertised date of arrival at Bombay of the next Peninsular and Oriental vessel leaving Port Said after the date of shipment of the sovereigns to London, at 1s 4d. the rupee, or
- (2) On the date of shipment from Egypt to London, at 1s 4½d per rupee

August 1910

[Form of Application opposite]

To the Under Secretary of State,  
India Office, S W.

Sir,

With reference to the attached statement of the conditions under which the Secretary of State for India in Council is willing to purchase for delivery in London sovereigns in transit from Australia or Egypt by issuing telegraphic transfers to an equivalent amount, we have to inform you that £ \_\_\_\_\_ in sovereigns has been shipped by us from [*Port of Shipment*] \_\_\_\_\_ by the S.S. \_\_\_\_\_ which leaves Fremantle \_\_\_\_\_ on [*Date*] \_\_\_\_\_

The Bills of Lading have been <sup>made out</sup> <sub>endorsed</sub> in favour of the Secretary of State for India in Council, and have been posted to the Under Secretary of State, India Office, London

We have to request that, in payment for these sovereigns, telegraphic transfers to the amounts specified below may be granted on the \_\_\_\_\_ 191 \_\_\_\_\_, in favour of [*Name*] \_\_\_\_\_ viz —

	Rs	Rate	Amount in Sterling
On Calcutta - -			£
On Madras - - -			
On Bombay - - -			
Total - - -			

We hold the Secretary of State in Council covered by the insurance policies noted below which are open to your inspection.

We are, Sir,  
Yours faithfully,

PARTICULARS OF INSURANCE POLICIES.

**Table II.**  
**COUNCIL BILLS AND TELEGRAPHIC TRANSFERS**

COMPARISON OF BUDGET ESTIMATES WITH ACTUAL DRAWINGS, 1872-3 TO 1898-9,  
AND 1899-1900 TO 1912-13, AND AVERAGE RATES OF EXCHANGE AT WHICH  
DRAWINGS WERE MADE

Year	Budget Estimate	Actual Amount	Comparison with Budget (+) Excess (-) Shortage	Average Rate	Remarks
	£	£	£	s d	
1872-73	13,000,000	13,939,095	+939,095	1 10 754	
1873-74	13,500,000	13,285,678	-214,322	1 10 351	
1874-75	10,000,000	10,841,615	+841,615	1 10 156	
1875-76	14,300,000	12,389,613	-1,910,387	1 9 626	
1876-77	13,660,000	12,695,800	-964,200	1 8 508	
1877-78	12,250,000	10,134,455	-2,115,545*	1 8 791	*Famine in India
1878-79	17,000,000	13,948,565	-3,051,435*	1 7 794	
1879-80	15,000,000	15,261,810	+261,810	1 7 961	
1880-81	16,900,000	15,239,677	-1,660,323	1 7 856	
1881-82	17,200,000	18,412,429	+1,212,429	1 7 895	†Reduction mainly due to unexpected receipt of 1,704,000 <i>l</i> on account of capital of Southern
1882-83	15,342,000	15,120,521	-221,479	1 7 525	Mahratta Railway
1883-84	16,300,000	17,599,805	+1,299,805	1 7 536	‡Suspension of coinage of Bland dollar recom-
1884-85	16,500,000	13,758,909	-2,741,091†	1 7 308	mended by President, United States of
1885-86	13,773,700	10,292,692	-3,481,008‡	1 6 254	America
1886-87	13,331,400	12,136,279	-1,195,121§	1 5 441	§Great depression in trade
1887-88	16,250,000	15,358,577	-891,423§	1 4 898	Indian Mints closed to free coinage Repeal of purchasing clauses of Sherman Act, United States of America
1888-89	14,000,000	14,262,859	+262,859	1 4 379	
1889-90	14,689,900	15,474,496	+784,596	1 4 566	
1890-91	14,989,000	15,969,034	+980,034	1 6 089	
1891-92	16,000,000	16,093,854	+93,854	1 4 733	
1892-93	17,000,000	16,532,215	-467,785	1 2 985	
1893-94	18,700,000	9,530,235	-9,169,765	1 2 547	
1894-95	17,000,000	16,905,102	-94,898	1 1 100	
1895-96	17,000,000	17,664,492	+664,492	1 1 638	
1896-97	16,500,000	15,526,547	-973,453	1 2 450	
1897-98	13,000,000	9,506,077	-3,493,923¶	1 3 406	
1898-99	16,000,000	18,692,377	+2,692,377	1 3 978	¶Famine in India
1899-1900	17,000,000	19,067,022	+2,067,022	1 4 068	**Severe failure of crops in 1899
1900-01	16,440,000	13,300,277	-3,139,723**	1 3 973	
1901-02	16,500,000	18,539,071	+2,039,071	1 3 988	
1902-03	16,500,000	18,499,946	+1,999,946	1 4 002	
1903-04	17,000,000	23,859,303	+6,859,303	1 4 049	
1904-05	16,500,000	24,425,558	+7,925,558	1 4 045	
1905-06	17,833,000	32,166,973	+14,333,973	1 4 042	
1906-07	17,800,000	33,157,196	+15,357,196	1 4 083	
1907-08	18,100,000	16,232,062	-1,867,938††	1 4 029	††Failure of monsoon, 1907, monetary crisis in America, severe and general trade depression
1908-09	18,500,000	13,915,426	-4,584,574††	1 3 931	
1909-10	16,200,000	27,096,586	+10,896,586	1 4 041	
1910-11	15,500,000	26,783,303	+11,283,303	1 4 060	
1911-12	17,158,300	27,058,550	+9,900,250	1 4 083	
1912-13	15,500,000	25,759,706	+10,259,706	1 4 058	

For the period 1872-73 to 1898-99 the average difference between the Budget Estimates and the actual amounts drawn was a shortage of 837,525*l*

For the period 1899-1900 to 1912-13 the average difference was an excess of 5,952,119*l*

Table III.

## BILLS AND TELEGRAPHIC TRANSFERS.

Amounts paid for in the First and Second Half of each Financial Year,  
1894-95 to 1912-13.

Year	April to September		Average Rate	October to March		Average Rate	
	Rupees	Sterling		Rupees	Sterling		
	Rs	£	s d	Rs	£	s d	
1894-95	15,88,44,871	8,730,043	1 1 190	15,08,53,927	8,175,059	1 1 006	
1895-96	16,62,95,158	9,215,992	1 1 301	14,45,59,215	8,448,500	1 2 026	
1896-97	16,42,10,913	9,654,845	1 2 111	9,36,59,192	5,871,702	1 3 046	
1897-98	6,85,20,590	4,252,887	1 2 896	7,96,07,420	5,253,190	1 3 837	
1898-99	12,94,96,131	8,590,394	1 3 921	15,12,67,540	10,101,983	1 4 028	
1899-00	12,23,47,402	8,157,433	1 4 002	16,24,53,541	10,909,589	1 4 117	
1900-01	6,38,06,175	4,244,281	1 3 964	13,60,31,518	9,055,996	1 3 977	
1901-02	9,61,94,653	6,385,759	1 3 932	18,21,06,397	12,153,312	1 4 017	
1902-03	9,94,60,280	6,603,929	1 3 935	17,80,06,985	11,896,017	1 4 089	
1903-04	14,26,05,137	9,502,887	1 3 993	21,41,89,708	14,356,416	1 4 086	
1904-05	13,47,71,989	8,993,229	1 4 015	23,05,85,374	15,432,329	1 4 062	
1905-06	15,25,02,477	10,179,857	1 4 020	32,87,40,779	21,987,116	1 4 052	
1906-07	17,77,10,081	11,867,805	1 4 028	31,70,59,592	21,289,391	1 4 115	
1907-08	16,11,87,898	10,796,875	1 4 076	8,18,57,517	5,435,187	1 3 936	
1908-09	3,15,51,751	2,095,256	1 3 938	17,80,85,437	11,820,170	1 3 930	
1909-10	15,32,35,306	10,184,694	1 3 951	25,21,86,715	16,911,892	1 4 095	
1910-11	17,13,31,579	11,435,911	1 4 019	22,89,09,178	15,347,392	1 4 091	
1911-12	17,96,97,568	12,019,885	1 4 053	22,40,73,180	15,038,665	1 4 108	
1912-13	14,67,44,404	9,809,188	1 4 043	23,82,43,774	15,950,518	1 4 068	
	Average	8,564,271		Average	12,391,285		

NOTE—It will be seen that the amount drawn in the second half of the financial year exceeds that drawn in the first half by more than 44 per cent on the average, and is almost invariably drawn at a higher rate of exchange



Table IV.

## BALANCE OF INDIA'S FOREIGN TRADE

Excluding Government transactions	1883-84	1884-85	1885-86	1886-87	1887-88	1888-89	1889-90	1890-91	1891-92	1892-93
Gross Exports of Merchandise -	£ 58,747,500	£ 55,467,000	£ 55,885,200	£ 58,952,400	£ 60,314,300	£ 64,652,100	£ 68,931,200	£ 66,757,100	£ 72,024,000	£ 71,024,000
„ Imports of Merchandise -	35,135,900	35,432,900	34,541,000	39,107,600	41,589,900	44,380,200	44,373,400	46,023,300	44,391,600	41,736,700
Net Exports of Merchandise	23,611,600	20,034,100	21,344,200	19,844,800	18,724,400	20,271,900	24,557,800	20,733,800	27,632,400	29,287,300
Percentage of excess of Exports over Imports -	67	57	62	* 51	45	46	55	45	62	70
	56									

NOTE 1—The difference between the amount on Location and Management of General Balances (page 82), is due to the fact that the former are the amount from the sale of those drafts.

NOTE 2—The figures of net import of management of General Balances, as the latter include movements of gold on Government account

Excluding Government Transactions	1899-1900 c	1900-01	1901-02	1902-03
Gross Exports of Merchandise	£ 72,650,800	£ 71,579,300	£ 82,976,600	£ 85,877,900
„ Imports of Merchandise	47,141,200	50,851,900	54,346,000	52,525,300
Net Exports -	25,509,600	20,727,400	28,630,600	33,352,600
Percentage of excess of Exports over Imports	54	41	53	64
This excess was met either in whole or part by—				
I. Imports of—				
(1) Government securities net (+)	+ 414,900	- 908,300	+ 1,212,700	+ 1,152,500
(2) Silver bullion and coin net (+)	+ 2,379,200	+ 949,100	+ 4,169,800	+ 4,651,000
(3) Gold bullion, net (+)	+ 978,700	+ 146,500	Nil	+ 898,900
To the amount of—	3,772,800	187,300	5,382,500	6,702,400
And II. Imports of—				
(1) Council Bills (see Note above)	18,703,800	18,824,500	18,535,800	18,724,000
(2) Sovereigns, net import (see Note 2 above)	+ 5,315,000	+ 4,897,200	+ 3,363,300	+ 5,413,900
To the amount of	24,018,800	23,721,700	21,899,100	24,137,900
Excluding Government Transactions	1900-10 *	1910-11	1911-12	1912-13.
Gross Exports of Merchandise	£ 125,253,000	£ 139,921,300	£ 151,896,100	£ 164,364,800
„ Imports of Merchandise	78,040,000	86,236,000	92,383,200	107,343,900
Net Exports -	47,213,000	53,685,300	59,512,900	57,020,900
Percentage of excess of Exports over Imports	60	62	64	53
This excess was met either in whole or part by—				
I. Imports of—				
(1) Government securities net (+)	- 520,000	+ 1,620,000	+ 706,700	(Figure not available)
(2) Silver bullion and coin net (+)	+ 6,246,700	+ 5,738,800	+ 3,528,800	+ 4,382,500
(3) Gold bullion, net (+)	+ 5,240,000	+ 7,610,900	+ 6,712,700	+ 7,280,800
To the amount of -	10,966,700	14,969,700	10,948,200	—
And II. Imports of—				
(1) Council Bills (see Note above)	27,820,000	26,286,700	26,780,000	25,874,700
(2) Sovereigns, net import (see Note 2 above)	+ 9,213,300	+ 8,374,900	+ 18,465,500	(Revised estimate.) + 17,771,600
To the amount of	37,033,300	34,661,600	45,245,500	43,646,300

a In March 1894 the duties on imports of Gold Bullion separately, the combined figure is shown under "Sovereigns."

c The sovereign was declared legal tender in India and

e Net result of bills paid in India and



Table V.

A COMPARATIVE TABLE SHOWING THE SALES OF BILLS AND TELEGRAPHIC TRANSFERS FOR THE PERIOD OCTOBER TO MARCH, INCLUSIVE, 1911-12 AND 1912-13

Week ending Tuesday	Amount of Bills and Tele- graphic Transfers sold (in Lakhs of Rs )	Rates				Week ending Tuesday	Amount of Bills and Tele- graphic Transfers sold (in Lakhs of Rs )	Rates			
		Bills		T T 's				Bills		T T 's	
		Highest	Lowest	Highest	Lowest			Highest	Lowest	Highest	Lowest
1911						1912					
10th Oct	60	$s \frac{d}{4 \frac{1}{2}}$	$s \frac{d}{4 \frac{1}{2}}$	$s \frac{d}{4 \frac{1}{2}}$	$s \frac{d}{4 \frac{1}{2}}$	8th Oct	81 6	$s \frac{d}{4 \frac{1}{2}}$	$s \frac{d}{4 \frac{1}{2}}$	$s \frac{d}{4 \frac{1}{2}}$	$s \frac{d}{4 \frac{1}{2}}$
17th Oct	60 1	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	15th Oct	60	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$
24th Oct	60 7	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	22nd Oct	60 8	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$
31st Oct	50	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	29th Oct	60 1	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$
7th Nov	50	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	5th Nov	81 3	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$
14th Nov	50 3	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	—	—	12th Nov	80	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$
21st Nov	52 2	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	19th Nov	81 9	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$
28th Nov	40 6	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	26th Nov	80 1	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$
5th Dec	43 1	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	—	—	3rd Dec	82 5	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$
12th Dec	40 7	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	—	—	10th Dec	94	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$
19th Dec	40 5	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	—	—	17th Dec	108 1	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$
26th Dec	45 2	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	23rd Dec	143 3	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$
						31st Dec	130 2	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$
1912						1913					
2nd Jan	61 8	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	7th Jan	123 9	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$
9th Jan	60 3	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	14th Jan	132 2	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$
16th Jan	127 1	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	21st Jan	117 1	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$
23rd Jan	118 9	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	28th Jan	100 7	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$
30th Jan	230	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	4th Feb	102 3	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$
6th Feb	181 2	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	11th Feb	110	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$
13th Feb	153 2	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	18th Feb	100	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$
20th Feb	101 9	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	25th Feb	119 5	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$
27th Feb	111	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	4th Mar	92	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$
5th Mar	105 6	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	11th Mar	65 9	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$
12th Mar	100 1	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	18th Mar	51 5	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$
19th Mar	100 3	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	25th Mar	58 5	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$
26th Mar	80	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$	$1 \frac{d}{4 \frac{1}{2}}$						

Table VI.

COUNCIL BILLS AND TELEGRAPHIC TRANSFERS SOLD AND NET IMPORTS OF SOVEREIGNS  
ON PRIVATE ACCOUNT INTO INDIA FOR EACH MONTH 1911-12 and 1912-13

Month	Prices realised				Total amount of Bills and Telegraphic Transfers Sold	Average Rates realised in decimals of a Penny, and to the nearest $\frac{1}{2}$ nd of a Penny	Net Imports of Sovereigns on Private Account into India
	Bills		Telegraphic Transfers				
	Highest	Lowest	Highest	Lowest			
<b>1911-12.</b>							
April	1 4 $\frac{3}{8}$	1 4 $\frac{1}{8}$	1 4 $\frac{1}{2}$	1 4 $\frac{3}{8}$	Rs { B 54,10,413 T T 363,84,000 }	1 4 091, say (1s 4 $\frac{3}{8}$ d)	999,945
May	1 4 $\frac{3}{8}$	1 3 $\frac{1}{2}$	1 4 $\frac{1}{2}$	1 4	{ B 71,60,439 T T 374,44,000 }	1 4 063, say (1s 4 $\frac{1}{8}$ d)	1,017,574
June	1 4 $\frac{1}{8}$	1 3 $\frac{1}{8}$	1 4 $\frac{1}{8}$	1 3 $\frac{1}{2}$	{ B 102,68,189 T T 138,64,000 }	1 4 008, say (1s 4d)	171,819
July	1 4 $\frac{1}{8}$	1 4	1 4 $\frac{3}{8}$	1 4 $\frac{3}{8}$	{ B 131,04,232 T T 80,70,000 }	1 4 038, say (1s 4 $\frac{3}{8}$ d)	444,194
August	1 4 $\frac{1}{8}$	1 4	1 4 $\frac{1}{8}$	1 4 $\frac{3}{8}$	{ B 215,79,000 T T 35,21,000 }	1 4 028, say (1s 4 $\frac{3}{8}$ d)	325,298
September	1 4 $\frac{3}{8}$	1 4 $\frac{1}{8}$	1 4 $\frac{1}{2}$	1 4 $\frac{1}{8}$	{ B 193,79,293 T T 37,47,000 }	1 4 057, say (1s 4 $\frac{1}{8}$ d)	442,966
October	1 4 $\frac{3}{8}$	1 4 $\frac{1}{8}$	1 4 $\frac{1}{2}$	1 4 $\frac{3}{8}$	{ B 194,94,509 T T 40,54,000 }	1 4 071, say (1s 4 $\frac{1}{8}$ d)	1,660,090
November	1 4 $\frac{3}{8}$	1 4 $\frac{3}{8}$	1 4 $\frac{3}{8}$	1 4 $\frac{1}{8}$	{ B 228,01,351 T T 7,01,000 }	1 4 046, say (1s 4 $\frac{3}{8}$ d)	1,567,542
December	1 4 $\frac{3}{8}$	1 4 $\frac{1}{8}$	1 4 $\frac{3}{8}$	1 4 $\frac{3}{8}$	{ B 130,08,498 T T 55,62,000 }	1 4 086, say (1s 4 $\frac{3}{8}$ d)	1,660,928
January	1 4 $\frac{1}{8}$	1 4 $\frac{3}{8}$	1 4 $\frac{3}{8}$	1 4 $\frac{1}{8}$	{ B 84,63,039 T T 645,26,000 }	1 4 136, say (1s 4 $\frac{1}{8}$ d)	2,954,216
February	1 4 $\frac{1}{8}$	1 4 $\frac{3}{8}$	1 4 $\frac{3}{8}$	1 4 $\frac{1}{8}$	{ B 67,38,652 T T 420,28,000 }	1 4 124, say (1s 4 $\frac{1}{8}$ d)	4,272,225
March	1 4 $\frac{1}{8}$	1 4 $\frac{3}{8}$	1 4 $\frac{3}{8}$	1 4 $\frac{1}{8}$	{ B 75,79,133 T T 290,22,000 }	1 4 105, say (1s 4 $\frac{3}{8}$ d)	2,711,589
<b>1912-13.</b>							
April	1 4 $\frac{1}{8}$	1 4 $\frac{1}{8}$	1 4 $\frac{3}{8}$	1 4 $\frac{1}{8}$	{ B 125,84,000 T T 143,29,000 }	1 4 058, say (1s 4 $\frac{1}{8}$ d)	1,196,474
May	1 4 $\frac{1}{8}$	1 4	1 4 $\frac{1}{8}$	1 4 $\frac{3}{8}$	{ B 129,21,075 T T 155,53,000 }	1 4 039, say (1s 4 $\frac{3}{8}$ d)	1,500,615
June	1 4 $\frac{1}{8}$	1 4 $\frac{3}{8}$	1 4 $\frac{3}{8}$	1 4 $\frac{1}{8}$	{ B 107,75,942 T T 105,93,000 }	1 4 049, say (1s 4 $\frac{3}{8}$ d)	2,516,542
July	1 4 $\frac{1}{8}$	1 4	1 4 $\frac{3}{8}$	1 4 $\frac{1}{8}$	{ B 220,19,929 T T 54,47,000 }	1 4 039, say (1s 4 $\frac{3}{8}$ d)	898,973
August	1 4 $\frac{1}{8}$	1 4 $\frac{3}{8}$	No sales		{ B 201,46,767 T T — }	1 4 031, say (1s 4 $\frac{3}{8}$ d)	1,822,480
September	1 4 $\frac{1}{8}$	1 4 $\frac{3}{8}$	1 4 $\frac{1}{8}$	1 4 $\frac{1}{8}$	{ B 217,49,693 T T 4,48,000 }	1 4 040, say (1s 4 $\frac{3}{8}$ d)	923,925
October	1 4 $\frac{3}{8}$	1 4 $\frac{3}{8}$	1 4 $\frac{3}{8}$	1 4 $\frac{1}{8}$	{ B 309,33,468 T T 43,83,000 }	1 4 063, say (1s 4 $\frac{1}{8}$ d)	744,902
November	1 4 $\frac{3}{8}$	1 4 $\frac{3}{8}$	1 4 $\frac{3}{8}$	1 4 $\frac{1}{8}$	{ B 277,57,060 T T 46,10,000 }	1 4 054, say (1s 4 $\frac{1}{8}$ d)	520,331
December	1 4 $\frac{1}{8}$	1 4 $\frac{1}{8}$	1 4 $\frac{3}{8}$	1 4 $\frac{3}{8}$	{ B 229,44,513 T T 248,39,000 }	1 4 111, say (1s 4 $\frac{1}{8}$ d)	2,101,829
January	1 4 $\frac{1}{8}$	1 4 $\frac{3}{8}$	1 4 $\frac{1}{2}$	1 4 $\frac{1}{8}$	{ B 254,97,994 T T 318,99,000 }	1 4 085, say (1s 4 $\frac{3}{8}$ d)	3,421,495
February	1 4 $\frac{3}{8}$	1 4	1 4 $\frac{3}{8}$	1 4 $\frac{3}{8}$	{ B 63,66,792 T T 357,17,000 }	1 4 042, say (1s 4 $\frac{3}{8}$ d)	1,157,000
March	1 4 $\frac{3}{8}$	1 3 $\frac{1}{2}$	1 4 $\frac{1}{8}$	1 4	{ B 55,50,946 T T 176,83,000 }	1 4 014, say (1s 4d)	809,380

## APPENDIX VIII

MEMORANDUM ON THE PAPER CURRENCY RESERVE SUBMITTED BY  
MR F W NEWMARCH, FINANCIAL SECRETARY

Under Acts of the Governor-General Nos VI of 1839, III of 1840 and IX of 1843 the Presidency Banks of Bengal, Bombay and Madras were authorised to issue notes payable on demand, but the issue of the notes was practically confined to the three cities of Calcutta, Bombay and Madras. These notes were not legal tender. The issues were limited to maxima of two crores of rupees in the cases of the Banks of Bengal and Bombay, and of one crore in that of the Bank of Madras. These Acts were repealed by Act XIX of 1861, providing for the issue of a Paper Currency through a Government Department by means of notes of the Government of India payable to bearer on demand. These notes were made legal tender within the circles of issue. Since the 1st March 1862, when this Act took effect, no banks have been allowed to issue notes in India.

General  
historical  
sketch

2 Under this Act notes of such denominations not being less than ten rupees as might be from time to time prescribed were issuable against current silver coin of the Government of India or standard silver bullion or foreign silver coin at the rate of Rs 979 per 1,000 tolas\* of standard silver

\* The tola, which is the weight of the rupee, is equal to 180 grains or three-eighths of an ounce, Troy. The rupee contains 165 grains of fine silver. fit for coinage. Provision was also made for the issue, under notification of the Government of India, of notes against gold coin of the Government of India or against foreign gold coin or gold bullion.

3 It was provided that bullion and coin should be retained as a Reserve to pay the notes issued, with the exception of such an amount not exceeding four crores of rupees as the Governor-General in Council with the consent of the Secretary of State for India might from time to time fix. This amount was to be invested in "Government Securities".

The invested  
portion of  
the Reserve

In December 1863 the composition of the Reserve against an issue of notes for Rs 5,11,00,000 was as follows —

	Rs
Silver Coin Reserve - - -	1,93,22,868
Silver Bullion Reserve - - -	1,17,00,000
Government Securities - - -	2,00,77,132
	5,11,00,000

The invested portion of the Reserve, it will be seen was about two-fifths of the whole

4 The maximum portion of the Reserve which might be held in "securities of the Government of India" was increased by Act III of 1871 to 60 millions of rupees, it was subsequently raised to 80 millions by Act XV of 1890 and to 100 millions by Act XXI of 1896.

5 A later Act, No III. of 1905, while raising the limit of the invested portion of the Reserve to 120 millions of rupees (value at the price at which they are purchased), introduced a change in the description of the securities in which investments might be made by substituting for "securities of the Government of India," "securities of the United Kingdom of Great Britain and Ireland or of the Government of India, or securities issued by the Secretary of State for India in Council under the authority of Act of Parliament and charged on the revenues of India." It also provided that the value of such securities as were not securities of the Government of India should not exceed 20 millions of rupees. A subsequent Act (No. VII. of 1911) raised the limit of the invested portion of the Reserve to 140 millions of rupees, and it provided that the amount of securities other than those of the Government of India should not exceed 40 millions of rupees.

6 The invested portion of the Reserve is now 140 millions, or 14 crores of rupees, of which 10 crores are represented by securities of the Government of India, and 4 crores by securities of the British Government (*see also* paragraphs 45 and 46) The correspondence that passed in 1904 and 1911 between the Secretary of State and the Government of India regarding the additions made in those years is attached (Note II, pages 255-83)

7 A Table (No 1, page 248) appended to this Note shows the total note circulation and the composition of the Reserve held against it in (1) silver (2) gold (when any portion of the Reserve was so held) and (3) securities, as these stood at 31st March in each year from 1862 to 1913, with the percentages borne by silver, gold, and securities to the total amount of the Reserve

Denominations of notes

8 The Act of 1861 did not provide for the issue of notes of lower denominations than 10 rupees A 5 rupee note was introduced by Act III of 1871

9 The following Table shows the numbers of the several denominations of currency notes in circulation on the last day of each of the years 1872-73, 1882-83, 1892-93, 1902-03, and 1911-12 —

Year	5	10	20	50	100	500	1,000	10,000
1872-73	310,001	970,517	441,871	157,965	214,110	27,957	57,635	576
1882-83	475,457	1,955,081	264,819	173,132	301,585	28,513	38,158	2,661
1892-93	495,456	3,917,336	330,083	232,482	568,068	50,648	67,981	5,403
1902-03	872,414	5,960,226	462,952	263,866	898,724	56,348	65,653	8,712
1911-12	2,599,877	15,090,740	65,633	379,255	1,652,209	56,102	92,971	14,320

10 By Act III of 1905 the 5 rupee note issued from any town not in Burma was made legal tender in any place in British India except Burma and was payable at any office of issue not in Burma By Act II of 1909 the exception as to Burma was removed, and the 5 rupee note was made "universal" By Act II of 1910 the 10 rupee and 50 rupee notes were also made "universal," and by a notification issued under that Act the 100 rupee note was also made universal from 1st April 1911 The issue of 20 rupee notes was discontinued under another notification, issued under the same Act, from 18th February 1910

11 There has been a great increase in the popularity of paper money in recent years, which is partly, but not wholly, attributable to the universalisation of various denominations of notes

Composition and location of the Reserve

12 As stated above, the Act of 1861 made provision for the issue, under notification of the Government of India, of notes against gold coin or bullion But this power was not exercised for some time

Gold appears for the first time in the Paper Currency Reserve in 1865, when 20 15 lakhs were held in that form, the quantity had fallen to Rs 72,520 in 1871, and gold disappeared from the Reserve after 1875

Changes introduced consequent on the recommendations of the Herschell Committee and the Fowler Commission Closing of Indian Mints

13 No further change in the composition of the Paper Currency Reserve (other than an increase of the invested portion) was made until 1893 when, in pursuance of the recommendations of Lord Herschell's Committee, an Act was passed (No VIII of 1893) providing for the closing of the Indian Mints to the free coinage of silver This Act took effect from 26th June 1893 On the same date the following notifications were issued —

- (1) Providing for the receipt at the Calcutta and Bombay Mints of gold coin and gold bullion in exchange for rupees, at the rate of 7 53344 grains troy of fine gold for one rupee
- (2) Providing for the receipt of sovereigns and half-sovereigns of current weight at Indian Treasuries as the equivalent of 15 rupees and 7 rupees 8 annas respectively

- (3) Providing for the issue of notes against gold coin and gold bullion at the rate of one rupee to 7 53344 grains troy of fine gold Sovereigns and half-sovereigns of current weight were to be taken as the equivalent of 15 rupees and 7 rupees 8 annas respectively

(A subsequent notification of 1906 modified the first of these notifications so as to provide that only sovereigns and half-sovereigns should be received at the Indian Mints in exchange for rupees)

14 These were the first steps towards the establishment of a Gold Standard They were supplemented six years later by the Act No XXII. of 1899 making British gold coins legal tender

Sovereigns  
made legal  
tender

15. In 1898 an Act had also been passed (II of 1898) enabling notes to be issued against gold held by the Secretary of State in London This Act was intended as a temporary measure to meet exceptional conditions

The Gold  
Note Act

The balances of the Government of India were at a low level There was a difficulty in meeting from them the Secretary of State's drafts, for which there was a strong market demand, money being exceptionally dear in India, with Calcutta and Bombay bank rates 11 and 12 per cent respectively, and exchange having risen to gold point (selling rate of telegraphic transfers on India 1s 4<sup>3</sup>/<sub>4</sub>d per rupee) In order to meet this crisis the Act above referred to was passed Under it the proceeds of the Secretary of State's sales of Council Bills could be set aside at the Bank of England in gold as part of the Indian Paper Currency Reserve The Government of India could issue notes against the gold so set aside, and with them could meet *pro tanto* the Secretary of State's drafts, without reducing their Treasury balances

16 The Act authorising this procedure was, as stated above, intended to be a temporary measure It provided that gold set apart under it by the Secretary of State should be held by him "until he shall transmit the same, or what he shall determine to be equivalent to the same, in gold coin or gold bullion to India, or until the Government of India shall appropriate and set apart in India as a part of the Currency Reserve \* \* \* an amount of coin of the Government of India equal in value to such notes"

17 The utility of the Act as something more than an emergency measure was, however, soon recognised, it was extended for 2½ years by Act VIII of 1898 and for a further period of two years by an Act No VIII of 1900, which empowered the Secretary of State to expend the gold held by him on the purchase of silver bullion and to transmit such bullion to India for currency purposes This Act also enabled the silver bullion purchased under it to be held as security for currency notes until rupees were coined from it It also provided that on receiving silver bullion the Government of India should coin it into rupees, and add to the Currency Reserve a number of rupees equal in value at 15 rupees = 1l to the price of the silver bullion bought and transmitted to them By Act IX of 1902 the main provisions of the Act of 1900 were made permanent

18 Thus the Secretary of State might either (1) hold gold in this country as part of the reserve against the note issue in India, or (2) he might transmit the gold to India to serve the same purpose there, or (3) he might expend it on the purchase of silver, also to form part of the reserve Gold or silver in transit to India, from its location as part of the reserve in England, or *vice versa*, remains part of the reserve while in transit (Act VIII of 1900, Section 2; Act III of 1905, Section 26, and Act X of 1910, Section 21)

19 In practice, only Nos. 1 and 3 of the three alternative courses mentioned in the last paragraph are adopted Ordinarily the balance of trade in favour of India admits of the importation of sovereigns on private account to an extent sufficient to meet the demands of the public, so that the shipment of sovereigns by the Secretary of State from England to India is unnecessary and would involve a needless waste of money on freight, &c.



20 When exceptionally the stock of gold available for issue to the public in India is not sufficiently maintained by imports of sovereigns from abroad, as in the crisis of 1908-09, the gold held in London can clearly be better utilised for the support of exchange if kept there than if shipped to India. It can, in such a crisis, be transferred from Paper Currency Reserve to Treasury balances, against an equivalent transfer in the reverse direction in India. Such a double transfer is equivalent to a remittance of Treasury balances from India to London, and may be used to obviate the necessity for making a remittance by means of the sale of Council drafts, at a time when such a remittance is either impracticable or only practicable at the cost of seriously depressing exchange.

Holding of a portion of the Paper Currency Reserve in London

21 Thus the holding of a portion of the Paper Currency Reserve in London serves a double purpose (1), it may be used in payment for purchases of silver, and (2) it may serve as a support to exchange at times when the balance of trade is unfavourable to India.

22 Some portion of the Reserve has accordingly been so held continuously since 1905. The amount then held in India had risen to 11,000,000*l.*, and appeared to form a disproportionately large component of the Reserve, while the silver portion was somewhat low (less than one-third of the whole), 5,000,000*l.* were accordingly shipped to this country, and it was subsequently decided to aim at holding not less than that amount normally, in London. (See correspondence attached, Note III, pages 284-8) The amount held there reached 8,100,000*l.* in April 1907, in the exchange crisis of 1907-09 it was reduced to 1,500,000*l.* The amount now deposited at the Bank of England is 6,100,000*l.*

23 The transfer of a portion of the Paper Currency Reserve from India to London by the shipment of sovereigns is, however, an unnecessarily expensive process, involving as it does the cost of freight, insurance, &c. Additions to the stock of gold held in the Paper Currency Reserve in London are made (1) by earmarking gold from the money at the Secretary of State's credit at the Bank of England, *i.e.*, transferring to the Paper Currency Reserve, so as to allow the Government of India to issue additional notes or to withdraw rupees from the Reserve in India, or (2) by purchasing sovereigns in transit to India,<sup>2</sup> and diverting them to London, against telegraphic transfers on India.

\* See paragraph 11 of Note on the sale of Council Bills and Telegraphic Transfers, page 218

24 Of the gold coin which flows into India in the ordinary course of adjustment of trade balance only a small portion passes direct into the hands of the public, far the greater part is tendered to Government and passes into the Paper Currency Reserve, to be exchanged for notes or rupees. There is also a steady efflux of gold from Paper Currency Reserve, in exchange for notes or rupees, which does not, however, prevent the gold portion of the Reserve from becoming sometimes unduly large in proportion to the silver portion, as shown in paragraph 22 above. Note I, Table No III, pages 251-3, shows the influx and efflux month by month from 1st April 1899 to 31st March 1911, and week by week from that date onwards.

Quantities of (1) silver (2) gold to be held in the Paper Currency Reserve

25 In any year of normal seasons there is during the winter months a large efflux of silver coin from Currency Reserve, which is counteracted, but only to a partial extent, by a return of rupees from circulation during the summer months or dull season. The net result is that in the absence of new coinage the silver portion of the Reserve tends steadily to contract.

26 In periods of bad seasons and trade depression, as in the years 1908 and 1909, this process may be temporarily reversed. Thus in the period 1st April 1908 to 31st March 1909 the amount of coined silver in the Reserves† increased, with a new coinage of only 24 51 lakhs, from 3,126 lakhs to 4,708 lakhs, so that there was a net return of 1,557 5 lakhs from circulation in the year. This, however, was

† Paper Currency and Gold Standard combined, see paragraph 30, *et seq.*, page 244

altogether exceptional. In the period 1894-95 to 1912-13 the average rate of net efflux from Currency Reserve was 617 21 lakhs per annum.

The figures are as follows —

	Lakhs
1st April 1894 to 31st March 1900, average net annual efflux	320 11
1st April 1900 to 31st March 1908, average net annual efflux	912 3
1st April 1908 to 31st March 1910, average net annual return from circulation	77
1st April 1910 to 31st March 1913, average net annual efflux	886
Average net annual efflux, 1894-5 to 1912-13	617 21

27 After the closing of the Indian mints to the free coinage of silver in 1893, the course adopted was to allow the stock of rupees in Currency Reserve to run down by this automatic process of depletion until it should reach as low a point as was consistent with safety. From 1898 onwards sovereigns flowed into the country in adjustment of the balance of trade in favour of India<sup>1</sup> and passed in considerable quantities into the Currency Reserve, so that at 31st March 1900, the composition of the Reserve, as compared with 31st March 1894, was as follows —

	1894		1900	
	Amount	Percentage of Total	Amount	Percentage of Total
	Lakhs		Lakhs	
Gold - - -	Nil	—	1,350†	47
Silver - - -	2,241	73 7	523	15 1
Securities - - -	800	26 3	1,000	34 9
Total - - -	3,041	100	2,873	100

† Of this 1,125 lakhs (7,500,000†) were held in India and 225 lakhs (1,600,000†) in England

28 Before this date, however, it had become apparent that the rupee reserve was approaching a dangerously low level, and the coinage of new rupees was begun about the end of January 1900. The silver in Currency Reserve fell below 5 crores in February. About 1½ crores of rupees were added to the coinage in the last months of 1899-1900, and some addition to it was made in each year down to 1907-08, the amounts coined in the years 1905-06, 1906-07, and 1907-08 being very large indeed (see Note I, Table IV, page 254). The Silver Reserve was never again allowed to fall to so low a figure as that reached in February 1900, but in January 1904, under pressure of very heavy demands due to the activity of trade, it fell to 750½ lakhs of rupees, or about 28 per cent of the total Reserve.

29 There was practically no new coinage in 1908-9, 1909-10, 1910-11, or 1911-12. Early in 1912, however, the stock in Paper Currency was being rapidly depleted. It fell to 1,157 lakhs at 7th May, in addition to which there was a further stock of 290 lakhs in Gold Standard Reserve (see paragraph below), making a total of 1,447 lakhs, and allowing for a certain return of silver from circulation during the summer months, it appeared clear that the stock held at the commencement of the busy season would be below the required amount (see paragraph 37, page 245). Coinage to the extent of about 1,575 lakhs of rupees was therefore carried out in 1912-13.

Of this amount 310 lakhs passed into what was until recently known as the Silver Branch (see next paragraph)—now the Indian Branch—of the Gold

\* See paragraph 19 above, page 241

Standard Reserve, the remainder passing into the Paper Currency Reserve. The amount held in the two Reserves at 31st March 1913 was 2,245 lakhs, as against 1,830 at 31st March 1912.

The "Ingot Reserve" and the Silver Branch of the Gold Standard Reserve

30 Reference has been made in the last paragraph to the Silver Branch, or as it is now called, the Indian Branch of the Gold Standard Reserve. This had its beginning in 1906. Before that date, *i.e.*, since the autumn of 1904, the Government of India, with the approval of the Secretary of State, had held a portion of their Paper Currency Reserve in the shape of silver ingots, so far prepared for coinage by having passed through the processes of melting, alligating, assaying, &c, as to be capable of being issued in the form of new rupees within five days from the date of an order to coin being given. Credit for these rupees was taken in the Paper Currency Reserve at their bullion value, and the amount of the Reserve so held was at first 300 lakhs of rupees, *i.e.*, silver purchased at a cost of 2,000,000*l.* This silver would of course produce much more than 300 lakhs of rupees, but the excess over 300 lakhs would be a credit to Gold Standard Reserve, not Paper Currency Reserve.

31 This reserve was intended to be treated as an emergency reserve, only to be drawn upon to meet sudden demands, and when drawn upon to be restored to its authorised figure at the earliest possible opportunity. The banking and commercial public had been alarmed at the rapid withdrawal of rupees from Currency Reserve at seasons of exceptionally active trade, as in the winter of 1903-04, when the efflux amounted to more than 4 crores of rupees in the one month of December 1903. Apprehensions had been expressed of a possible failure of the supply of rupees, and the Government of India thought that the holding of an emergency reserve, although held within the Paper Currency Reserve, would strengthen confidence in their position.

32 The next step was a proposal of the Government of India, which was approved by the Secretary of State in January 1906, to increase the "Ingot Reserve" from 300 to 600 lakhs of rupees. Before this was put into effect, however, the original Reserve had been exhausted under the pressure of a great demand for new rupees, and the Government of India submitted in April 1906, a proposal to hold the increased ingot Reserve not as a part of the Paper Currency Reserve, but as a branch of what had, up to that time, been called the "Gold Reserve Fund," but which, in view of its altered composition it was decided to denominate in future the Gold Standard Reserve.

33 The silver composing this fund represented, of course, the profits of other coinage, thus reducing *pro tanto* the amount for the time available for investment in gold securities. The Government of India

\* Financial Despatch to the Secretary of State, No 144, dated 26th April 1906 (See Appendix V, page 137)

did not regard this as an evil. They wrote "as regards gold, the position already attained is undeniably strong. We have accumulated by a natural process a stock of over 12,000,000*l.* in the Gold Reserve Fund, besides over 11,000,000*l.* in the Currency Reserve, and in addition the paper currency investment now includes 1½ millions worth of sterling securities. During seven years we have never been threatened with serious attack from this side. We are far from affirming that the point has been reached or is in sight, when further accumulations of gold should cease. Even a relatively small depletion of our total stock of gold might excite public apprehension and this is the more important now that it has been decided to divide our stock by holding five millions or more in your currency chest in London. At the present time we hold less than four millions of gold in India, and we are assured that no material reduction in this figure would be consistent with public confidence."

Then follows this important statement "We are however satisfied that further direct additions to the Gold Reserve Fund can with advantage be temporarily suspended if such a measure would enable us to strengthen

“ our position on a weaker side The case of silver is wholly different  
 “ *From first to last our only practical difficulty has been the timely provision*  
 “ *of rupees*, and notwithstanding various improvements of method that  
 “ difficulty still remains, and as recent experience has again shown it  
 “ constitutes a real danger ”

34 The practice of holding a portion of the Gold Standard Reserve in silver has met with much criticism, and is discussed in Mr Abrahams' note on the Gold Standard Reserve (see Appendix III, pages 94-6)

It may be mentioned here that the course adopted in 1906 had the effect of increasing the rupee reserves by six crores without increasing at all (as an addition of six crores to the silver held *within* the Paper Currency Reserve would have done) the volume of the notes liable to be presented for encashment\*

\* The silver branch of the Gold Standard Reserve also formed the nucleus to which the large sums (exceeding 8,000,000) received by the Government of India in payment for Bills on London were added, in rupees, during the crisis of 1907-09

The same result could have been obtained by taking from the gold in the Paper Currency Reserve an amount sufficient to buy silver to produce six crores of rupees, and the Government of India considered this alternative method, but dismissed it on the ground that it would unduly deplete their stock of gold Taking as the basis of their calculations a note issue of 42 crores, against which the invested portion of the Reserve was 12, they argued that they could not hold within the Reserve 18 crores of rupees (which they regarded as a suitable stock wherewith to begin the busy season), as well as an ingot reserve of 4 crores (at bullion value, capable of being coined into about 600 lakhs of rupees),

Invested portion	-	12	without reducing the gold portion of the
Rupees	-	18	Reserve to a too low figure, viz, 8
Ingot Reserve	-	4	crores = 5,333,333/ By the method
Gold	-	8	which they adopted they were able to
		42	hold a total silver reserve of 24 crores,
			bearing a proportion of slightly more

Quantities of silver, gold, and investments to be held in Paper Currency Reserve — contd

than 57 per cent to the note circulation, whereas, if they had added 6 crores of rupees to the Paper Currency Reserve, and therefore to the note issue, the silver held would have only borne a proportion of 50 per cent to the larger note issue

35 The proportion which the silver reserves should bear to the total Paper Currency Reserve has not, however, been laid down in terms of a percentage to the rapidly increasing amount of the latter As has been shown above (see paragraph 27, page 243), the percentage has been as low as 18 1/2 in 1900, but when, later on, it fell again as low as 28 per cent, the situation was regarded as dangerous (paragraph 28, page 243)

Silver

36 Conditions are however, changing, and the efflux of rupees from the Reserve in the busy season and the net withdrawal in the whole year have hardly been on so large a scale in the recent years of active trade, 1909-10, 1910-11, 1911-12 and 1912-13, as in earlier years of trade activity, viz, 1903-04 to 1906-07 (see paragraph 28) This appears to have been due partly to an increasing popularity of the note circulation (see paragraphs 10 and 11 above, page 240), and partly to an increasing circulation of gold coin On the other hand the total volume of the Reserve has increased enormously — from 39 crores of rupees at 31st March 1905 to 69 crores at the same date in 1913 Thus if the requisite reserve of silver were calculated on the basis of a percentage to the total note circulation, that reserve would have to be 75 per cent larger\* now than eight years ago Such a method of regulating the stock of rupees to be held in the Reserve, or Reserves, would thus be clearly mistaken

37. The formula accepted for present guidance is that the amount held in Paper Currency and Gold Standard Reserve combined should be at

\* If account were taken only of the “active” circulation, i.e., the total circulation less notes held in Government Treasuries and Presidency Banks, the increase would be less, because owing to the Government balances having been unusually high at the end of the period in question, the difference between total and active note circulation at that date must have been much above the average The exact figures of total and active note circulation at 31st March 1913 are, however, not available.

least 24 crores of rupees at the commencement of the "busy" season (1st October) and not less than 17½ crores towards the end of that season, during which there is normally a large withdrawal of rupees from the Reserve. During the October—December quarter, the accepted policy is to keep the stock in Paper Currency Reserve up to 18 crores, coining silver for the purpose as may be necessary, and to hold the 6 crores in Gold Standard Reserve intact, but after 31st December to draw upon the silver in the Gold Standard Reserve, if necessary, so as to maintain a minimum of 15 crores in Paper Currency Reserve, provided that the total stock of rupees in the two Reserves does not fall below 17½ crores at 31st March. Rupees thus transferred from Gold Standard Reserve to Currency Reserve are to be replaced by gold transferred from the latter to the former Reserve. After the busy season closes and when the return of rupees from circulation into Currency Reserve has set in, gold is to be transferred back from Gold Standard to Currency Reserve, in exchange for silver transferred from the latter to the former. This arrangement gives a degree of elasticity to the system and enables the Paper Currency to be worked safely with perhaps a minimum stock of silver.

38 A formula of this kind must, however, be expected to need revision from time to time. No one expects it to serve as a hard and fast standard for all time, but for the present it seems sufficient to retain it a guide for action, while carefully watching its applicability to the changing conditions.

39 It appears from Note I, Table No IV, page 254, that on the average of the past 19 years an annual purchase of about 23,427,000 ounces of silver, producing about 617 lakhs of new rupees, will serve to keep up a certain stock of rupees. It is sometimes said, I believe, that on the basis of a calculation of this sort, the Secretary of State should buy regularly, year by year, or month by month, a certain number of thousands of ounces of silver. The practice of other countries, such as France and the United States, is cited as an example to be followed by him. It is urged that if he did so the fluctuations in the price of silver would be restricted, and trade between India and countries having a purely silver standard, such as China, would be put upon a sounder basis.

40 But the conditions with which those who are responsible for the regulation of the Indian currency have to deal are different from those existent in any other country in the world. The influence which dominates all others is that of the seasonal monsoon. In good seasons, as stated above, paragraphs 25 and 26, pages 242-3, there is a steady absorption of rupees which, if a tolerably constant succession of good seasons could be relied upon, would justify a regular and constant purchase of silver for new coinage.

41 During the six years, 1902-3 to 1907-08, new coinage proceeded at an average rate of 1,302.72 lakhs a year, with the result that at the end of the period the stocks of silver in Paper Currency and Gold Standard Reserves had increased by 2,005 lakhs. Thus new coinage at the rate of 968.56 lakhs per annum would have maintained the Reserves at the figure at which they stood at 31st March 1902. With hardly any coinage of new rupees the quantity held in Paper Currency Reserve and Gold Standard Reserve

combined was increased between 1st April 1908 and 1st April 1910 from 3,126 to 3,316 lakhs\*. Had the experience of the six years prior to 1st April 1908 been relied upon as a guide for the future, and had new coinage proceeded at the rate of 968.56 lakhs a year, the stock held in the two Reserves combined at the latter date would have been 5,063 lakhs and, with a continuance of bad seasons and purchases of silver for coinage, the accumulation of silver coin might have progressed indefinitely.

42 Purchases of silver, it is to be remembered, must be paid for either with gold taken from the Paper Currency Reserve or by additional sales of Council Bills. But after any lengthened exchange crisis the quantity of gold held in the Currency Reserve must necessarily have fallen low. It had

fallen to 1,500,000*l* at the close of the crisis of 1907-09. At such a time it needs to be replenished, not depleted. Its utilisation for the purchase of silver would directly deplete it; increased sales of Bills to pay for silver would retard its replenishment.

43 The policy of Government, therefore, for this reason if for no other, must be not to buy silver for new coinage when there is already an excessive accumulation of silver coin in the Currency Reserve, and indeed not to buy until the prospect of the stock falling to an unduly low level, measured according to the best estimates that can be framed (*see* paragraph 37, page 245), seems to be in sight.

44 As regards gold, the accepted policy is to allow the stock held to increase with the influx which takes place in times of active trade, that is when the sales of Council Bills fall far short of meeting the demand for remittance to India, until the amount of gold held in the Reserve becomes large out of proportion to the amount of silver. It is impossible to fix a point at which this takes place. Some years ago (1905), when the total Currency Reserve was only about four-sevenths of its present size, a holding of 10,000,000*l* in sovereigns was looked upon as excessive. In the last few months the amount has been allowed to reach nearly 27,000,000*l*, while silver has not been at a dangerously low level. If sovereigns continue to form an increasing part of the circulation, and if rupees continue to be withdrawn on a diminishing scale from the Currency Reserve, the portion of that Reserve held in gold may be allowed to grow. The gold portion of the Reserve need only be reduced if and when it is required to use a portion of it for the purchase of silver. Gold

45 The ratio borne by the invested portion of the Reserve to the whole, as will be seen from Note I, Table I, pages 248-9, has varied greatly. Down to 1879 it was frequently more than 50 per cent of the whole. Since the closing of the Indian Mints it has often exceeded 40 per cent. At 31st March 1913 it was only a little over 20 per cent of the whole. The fiduciary portion of the Reserve held by the Bank of England against its note issue, it may be observed, is seldom less than 31 per cent. The invested portion of the Reserve

46 The growth of the Indian note circulation, as observed above (paragraph 36, page 245), has been extraordinarily rapid of late years. If it continues a further increase of the invested portion of the Reserve will, no doubt, soon become practicable.

NOTE 1—TABLES  
Table No. I.  
PAPER CURRENCY RESERVE

Year (Last day in March)	Total Note Circulation	Composition and Location of the Reserve							Percentage of Silver to total Reserve	Percentage of Gold to Total Reserve	Percentage of Securities to Total Reserve
		Silver	Gold			Securities					
		India	India	England	Total	India	England	Total			
	Rs	Rs	Rs	Rs	Rs	Rs	Rs	Rs			
1862 -	3,69,00,000	3,69,00,000	—	—	—	—	—	—	100	—	—
1863 -	4,92,60,000	4,24,11,140	—	—	—	(a) 68,48,860	—	68,48,860	86 1	—	13 9
1864 -	5,35,00,000	2,86,27,220	—	—	—	2,48,72,780	—	2,48,72,780	53 5	—	46 5
1865 -	7,42,73,270	3,65,13,250	20,14,850	—	—	3,57,45,170	—	3,57,45,170	49 2	2 7	48 1
1866 -	6,89,84,810	2,91,82,050	220	—	—	3,98,02,540	—	3,98,02,540	42 3	—	57 7
1867 -	8,09,08,680	4,82,68,540	1,19,590	—	—	3,25,20,550	—	3,25,20,550	59 7	1	40 2
1868 -	9,06,95,690	5,80,27,630	1,47,510	—	—	3,25,20,550	—	3,25,20,550	64	—	36
1869 -	9,95,92,960	6,01,50,410	3,12,490	—	—	3,12,490	—	3,91,30,060	60 4	3	39 3
1870 -	10,47,28,830	6,83,82,830	3,12,490	—	—	3,12,490	—	3,60,33,510	65 3	3	34 4
1871 -	10,43,72,910	7,20,28,380	72,520	—	—	72,520	—	3,22,72,010	69	1	30 9
1872 -	13,16,79,170	7,25,12,920	72,490	—	—	72,490	—	(b) 5,90,93,760	55	1	44 9
1873 -	11,13,50,610	5,43,38,580	72,490	—	—	72,490	—	5,69,39,530	48 8	1	51 1
1874 -	9,24,97,610	3,54,85,590	72,490	—	—	72,490	—	5,69,39,530	38 4	1	61 5
1875 -	11,23,64,380	5,53,52,360	72,490	—	—	72,490	—	5,69,39,530	49 2	1	50 7
1876 -	10,99,99,270	5,30,59,720	—	—	—	—	—	5,69,39,530	48 2	—	51 8
1877 -	11,61,78,110	5,61,97,210	—	—	—	—	—	5,99,80,900	48 4	—	51 6
1878 -	13,57,47,500	7,88,15,030	—	—	—	—	—	5,69,32,460	58 1	—	41 9
1879 -	11,42,36,450	5,42,45,270	—	—	—	—	—	5,99,91,170	47 5	—	52 5
1880 -	12,35,77,270	6,36,08,520	—	—	—	—	—	5,99,70,750	51 5	—	48 5
1881 -	13,40,17,360	7,40,93,180	—	—	—	—	—	5,99,24,180	55 3	—	44 7
1882 -	13,90,71,780	7,90,67,850	—	—	—	—	—	5,99,99,970	56 9	—	43 1
1883 -	14,50,64,080	8,50,64,110	—	—	—	—	—	5,99,99,970	58 6	—	41 4
1884 -	12,75,65,410	6,75,65,410	—	—	—	—	—	6,00,00,000	53	—	47
1885 -	14,57,69,040	8,57,71,540	—	—	—	—	—	5,99,97,500	58 8	—	41 2
1886 -	14,17,32,720	8,17,37,720	—	—	—	—	—	5,99,95,000	57 7	—	42 3
1887 -	13,87,68,360	7,87,75,860	—	—	—	—	—	5,99,92,500	56 8	—	43 2





Table No. II.

GROSS AND ACTIVE CIRCULATION OF CURRENCY NOTES,  
1862 to 1912

Year (Last day in March)	Gross Circulation	In Government Treasuries	Elsewhere	Notes held by Presidency Banks at Head Offices	Notes in active circulation among the Public
	1	2	3 = Col 1 - Col 2	4	5 = Col 1 - (Col 2 + Col 4)
	Rs	Rs	Rs	Rs	Rs
1862	3,69,00,000	16,70,600	3,52,29,400		
1863	4,92,60,000	44,86,110	4,47,73,890		
1864	5,35,00,000	39,26,650	4,95,73,350		
1865	7,42,73,270	58,14,140	6,84,59,130		
1866	6,89,84,610	69,87,190	6,19,97,620		
1867	8,09,08,680	60,31,390	7,48,77,290		
1868	9,06,95,690	71,23,150	8,35,72,540		
1869	9,95,92,960	62,98,040	9,32,94,920		
1870	10,47,28,830	80,99,460	9,66,29,370		
1871	10,43,72,910	99,13,170	9,44,59,740		
1872	13,16,79,170	2,20,83,790	10,95,95,380		
1873	11,13,50,610	1,85,56,780	9,27,93,830		
1874	9,24,97,610	1,27,63,140	7,97,34,470		
1875	11,23,64,380	1,58,44,910	9,65,19,470		
1876	10,99,99,270	1,73,45,770	9,26,53,500		
1877	11,61,78,110	1,35,67,760	10,26,10,350		
1878	13,57,47,500	2,56,88,490	11,00,59,010		
1879	11,42,36,450	1,71,68,700	9,70,67,750		
1880	12,35,77,270	1,32,60,850	11,03,16,420		
1881	13,40,17,360	1,80,55,950	11,59,61,410		
1882	13,90,71,780	3,39,95,040	10,50,76,740		
1883	14,50,64,080	3,39,09,410	11,11,54,670		
1884	12,75,65,410	2,26,06,540	10,49,58,870		
1885	14,57,69,040	1,84,67,210	12,73,01,830		
1886	14,17,32,720	1,85,93,400	12,31,39,320		
1887	13,87,68,360	1,97,87,880	11,89,80,480		
1888	16,42,43,790	1,92,86,560	14,49,57,230		
1889	15,73,78,130	2,47,48,980	13,26,29,150		
1890	15,77,17,800	2,45,79,940	13,31,37,860		
1891	25,69,04,490	5,31,15,320	20,37,89,170		
1892	24,07,64,080	5,35,09,840	18,72,54,240		
1893	26,40,18,200	4,60,17,970	21,80,00,230	2,32,00,000	19,48,00,230
1894	30,41,16,310	11,56,70,570	18,84,45,740	2,00,00,000	16,84,45,740
1895	30,70,00,100	9,03,05,650	21,66,94,450	2,61,00,000	19,05,94,450
1896	25,94,06,990	4,07,04,640	21,87,02,350	1,77,00,000	20,10,02,350
1897	23,75,33,070	2,89,04,320	20,86,28,750	2,10,00,000	18,76,28,750
1898	24,76,40,490	5,08,13,080	19,68,27,410	1,82,00,000	17,86,27,410
1899	28,20,32,760	5,25,70,020	22,94,62,740	2,57,00,000	20,37,62,740
1900	28,73,72,255	4,00,93,100	24,72,79,155	2,63,00,000	22,09,79,155
1901	29,86,59,000	6,07,97,045	23,78,61,955	1,87,00,000	21,91,61,955
1902	31,66,12,945	7,41,84,770	24,24,28,175	2,02,00,000	22,22,28,175
1903	35,72,36,070	6,85,38,765	28,86,97,305	4,06,00,000	24,80,97,305
1904	38,21,16,540	6,66,69,520	31,54,47,020	3,45,00,000	28,09,47,020
1905	39,17,59,870	5,44,77,990	33,72,81,880	5,27,00,000	28,45,81,880
1906	44,65,65,810	6,76,41,930	37,89,23,880	5,27,00,000	32,62,23,880
1907	46,95,19,260	5,75,23,285	41,19,95,975	4,75,00,000	36,44,95,975
1908	46,88,50,345	8,24,21,480	38,64,28,865	6,04,00,000	32,60,28,865
1909	45,48,79,505	6,25,70,540	39,23,08,965	4,28,00,000	34,95,08,965
1910	54,40,84,250	7,89,77,730	46,51,06,520	6,53,00,000	39,98,06,520
1911	54,99,05,815	9,30,83,585	45,68,22,230	5,51,00,000	40,17,22,230
1912	61,36,25,095	8,12,00,000	53,24,25,095	8,63,00,000	44,61,25,095

Figures for  
years before  
1893 not  
available at  
India Office

Table No. III.

## GOLD IN PAPER CURRENCY RESERVE AND TREASURIES OF THE GOVERNMENT OF INDIA

RECEIPTS AND ISSUES (IN THOUSANDS OF POUNDS) IN EACH MONTH, 1899-1900 TO 1910-11, AND IN EACH WEEK, 1911-12 AND 1912-13.

## Part I—1899-1900 to 1910-11

Month	1899-1900.			1900-01.			1901-02.		
	Receipts.	Issues.	Net Receipt. + Net Issue -	Receipts	Issues.	Net Receipt. + Net Issue -	Receipts.	Issues.	Net Receipt. + Net Issue -
April - - -	258	—	+ 258	904	440	+ 464	372	943	- 571
May - - -	11	—	+ 11	1,032	586	+ 446	563	155	+ 408
June - - -	89	—	+ 89	1,130	563	+ 567	218	286	- 68
July - - -	69	—	+ 69	639	881	- 242	263	282	- 19
August - - -	176	—	+ 176	473	795	- 322	207	290	- 83
September - - -	117	—	+ 117	587	447	+ 140	345	166	+ 179
October - - -	749	—	+ 749	848	1,530	- 682	452	166	+ 286
November - - -	622	—	+ 622	582	927	- 345	219	1,179	- 960
December - - -	613	—	+ 613	705	1,119	- 414	500	1,002	- 502
January - - -	863	23	+ 840	1,790	1,209	+ 581	499	150	+ 349
February - - -	1,352	28	+ 1,324	882	917	- 35	570	176	+ 394
March - - -	1,191	328	+ 863	601	1,414	- 813	2,583	189	+ 2,394
Total - - -	6,110	379*	+ 5,731	10,173	10,828	- 655	6,791	4,984†	+ 1,807
Total, exclusive of withdrawals on Government account (see foot-notes)	6,110	379	+ 5,731	10,173	6,328‡	+ 3,845	6,791	2,982§	+ 3,809
Monthly average - - -	509	32	+ 477	848	527	+ 321	566	249	+ 317

  

	1902-03.			1903-04.			1904-05.		
	Receipts.	Issues.	Net Receipt. + Net Issue -	Receipts	Issues.	Net Receipt. + Net Issue -	Receipts.	Issues.	Net Receipt. + Net Issue -
April - - -	274	274	—	163	521	- 358	621	582	+ 39
May - - -	153	703	- 550	214	421	- 207	957	327	+ 630
June - - -	120	186	- 66	350	272	+ 78	1,296	336	+ 960
July - - -	142	324	- 182	428	247	+ 181	396	345	+ 51
August - - -	91	278	- 187	818	301	+ 517	584	908	- 324
September - - -	95	188	- 93	811	292	+ 519	812	2,446	- 1,634
October - - -	224	262	- 38	833	1,280	- 447	302	323	- 21
November - - -	266	227	+ 39	947	1,123	- 176	855	316	+ 539
December - - -	847	278	+ 569	814	842	- 28	1,455	1,950	- 495
January - - -	1,343	200	+ 1,143	1,588	2,320	- 732	1,230	1,381	- 151
February - - -	1,467	261	+ 1,206	2,025	879	+ 1,146	1,212	527	+ 685
March - - -	1,427	250	+ 1,177	828	393	+ 435	557	930	- 373
Total - - -	6,449	3,431	+ 3,018	9,819	8,891	+ 928	10,277	10,371	- 94
Total, exclusive of withdrawals on Government account (see foot-notes)	6,449	2,931	+ 3,518	9,819	4,630a	+ 5,189	10,277	4,771b	+ 5,506
Monthly average - - -	437	244	+ 293	818	386	+ 432	856	397	+ 459

\* The first issue was made on 15th January 1900.

† 4,500,000L. was shipped to the Secretary of State

‡ Particulars from April 1899 to May 1901 taken from monthly returns.

§ 2,002,000L. was shipped to Secretary of State.

|| 500,000L. was shipped to Secretary of State.

a 4,281,000L. was shipped to Secretary of State.

b 5,600,000L. was shipped to Secretary of State.

Month	Receipts	Issues	Net Receipt + Net Issue -	Receipts	Issues	Net Receipt + Net Issue -	Receipts	Issues	Net Receipt + Net Issue -
	1905-06.			1906-07.			1907-08.		
April - - -	432	394	+ 38	334	1,054	- 720	547	961	- 414
May - - -	396	487	- 91	363	706	- 343	1,486	1,144	+ 342
June - - -	295	443	- 148	362	561	- 199	1,477	1,259	+ 218
July - - -	576	1,454	- 878	294	586	- 292	1,256	855	+ 401
August - - -	460	1,474	- 1,014	520	541	- 21	949	872	+ 77
September - - -	657	1,403	- 746	1,557	539	+ 1,018	695	834	- 139
October - - -	388	419	- 31	864	502	+ 362	597	853	- 256
November - - -	925	1,567	- 642	1,228	709	+ 519	729	1,274	- 545
December - - -	827	681	+ 146	1,028	697	+ 331	787	1,174	- 387
January - - -	644	1,531	- 887	834	714	+ 120	852	1,088	- 236
February - - -	396	832	- 436	442	889	- 447	1,300	1,252	+ 48
March - - -	257	1,230	- 973	459	933	- 474	875	989	- 114
Total - - -	6,253	11,915	- 5,662	8,285	8,431	- 146	11,550	12,555	- 1,005
Total, exclusive of withdrawals on Government account (see footnote)	6,253	5,915*	+ 338	8,285	8,431	- 146	11,550	12,555	- 1,005
Monthly Average -	521	493	+ 28	690	702	- 12	962	1,046	- 84

	1908-09.			1909-10.			1910-11.		
April - - -	626	1,177	- 551	61	79	- 18	313	656	- 343
May - - -	555	1,193	- 638	44	53	- 9	173	815	- 642
June - - -	523	902	- 379	43	39	+ 4	170	1,112	- 942
July - - -	827	820	+ 7	32	43	- 11	286	862	- 576
August - - -	367	726	- 359	24	33	- 9	219	883	- 664
September - - -	317	863	- 546	10	20	- 10	270	713	- 443
October - - -	279	595	- 316	11	21	- 10	276	664	- 388
November - - -	217	290	- 73	26	22	+ 4	1,676	1,052	+ 624
December - - -	151	149	+ 2	1,916	98	+ 1,818	973	1,210	- 237
January - - -	129	214	- 85	3,749	257	+ 3,492	2,808	1,031	+ 1,777
February - - -	129	139	- 10	875	401	+ 474	2,171	1,067	+ 1,104
March - - -	88	106	- 18	1,242	623	+ 619	2,018	1,008	+ 1,010
Total - - -	4,208	7,174	- 2,966	8,033	1,689	+ 6,344	11,353	11,073	+ 280
Total, exclusive of withdrawals on Government account (see footnote)	4,208	6,934†	- 2,726	8,033	1,689	+ 6,344	11,353	11,073	+ 280
Monthly average -	351	578	- 227	669	141	+ 528	946	923	+ 23

\* 6,000,000<sup>l</sup> was shipped to Secretary of State

† 210,248<sup>l</sup> 12s 4d, light sovereigns and bullion shipped to Secretary of State

## Part II—1911-12 and 1912-13

	Receipts.	Issues	Net Receipt + Net Issue -	Receipts	Issues	Net Receipt + Net Issue -
	1911-12.			1912-13.		
7th April	329	293	+ 36	439	469	- 30
15th April	402	378	+ 24	575	503	+ 72
22nd April	478	238	+ 240	424	454	- 30
30th April	206	239	- 33	684	440	+ 244
7th May	381	253	+ 128	716	531	+ 185
15th May	221	373	- 152	607	513	+ 94
22nd May	476	385	+ 91	258	481	- 223
31st May	235	335	- 100	740	679	+ 61
7th June	308	327	- 19	668	573	+ 95
15th June	147	308	- 161	1,109	559	+ 550
22nd June	141	182	- 41	614	440	+ 174
30th June	260	243	+ 17	1,128	353	+ 775
7th July	140	313	- 173	587	427	+ 160
15th July	135	247	- 112	510	320	+ 190
22nd July	175	202	- 27	372	227	+ 145
31st July	448	172	+ 276	494	260	+ 234
7th August	428	257	+ 171	918	343	+ 575
15th August	138	249	- 111	183	289	- 106
22nd August	152	154	- 2	668	207	+ 461
31st August	139	182	- 43	264	234	+ 30
7th September	205	250	- 45	740	351	+ 389
15th September	92	197	- 105	152	225	- 73
22nd September	280	157	+ 123	480	239	+ 241
30th September	208	187	+ 21	283	269	+ 14
7th October	287	234	+ 53	502	362	+ 140
15th October	557	283	+ 274	647	304	+ 343
22nd October	279	235	+ 44	241	364	- 123
31st October	959	216	+ 743	428	2,269*	- 1,841
7th November	211	327	- 116	255	552*	- 297
15th November	1,248	305	+ 943	274	495	- 221
22nd November	105	306	- 201	187	374	- 187
30th November	381	242	+ 139	423	433	- 10
7th December	102	299	- 197	269	591	- 322
15th December	306	259	+ 47	543	454	+ 89
22nd December	654	370	+ 284	578	600	- 22
31st December	386	227	+ 159	1,189	583	+ 606
7th January	733	423	+ 310	1,276	553	+ 723
15th January	1,447	426	+ 1,021	700	574	+ 126
22nd January	874	481	+ 393	1,090	508	+ 582
31st January	1,130	480	+ 650	1,459	806	+ 653
7th February	1,291	572	+ 719	833	587	+ 246
15th February	1,362	638	+ 724	594	596	- 2
22nd February	1,079	316	+ 763	462	454	+ 8
29th February	876	318	+ 558	784	334	+ 450
7th March	616	364	+ 252	579	871	- 292
15th March	1,013	387	+ 626	561	1,045*	- 484
22nd March	787	334	+ 453	293	432	- 139
31st March	1,115	454	+ 661	552	671	- 119
Total	23,922	14,617	+ 9,305	28,332	24,198	+ 4,134
Total, exclusive of withdrawals on Government account (see footnote)	23,922	14,617	+ 9,305	28,332	21,815*	+ 6,517
Monthly average	1,993	1,218	+ 775	2,361	1,818	+ 543

\* 2,382,613s. light weight sovereigns were shipped to Secretary of State 1,875,700s 10s on 26th October 1912, 53,887s. on 6th November 1912, and 453,025s. 10s on 15th March 1913.

Table No. IV.

## AMOUNT OF SILVER HELD IN RESERVES, AND NEW COINAGE, 1894-95 TO 1912-13

(1) YEAR	(2) Coined Silver held at commencement of Year			(3) Coined Silver held at end of Year			(4) Net Increase (+) or Decrease (-) in Amount held	(5) Total coinage, less reconage	(6) Remarks
	Currency	Gold Standard Reserve	Total	Currency	Gold Standard Reserve	Total			
1894-95	22,41	—	22,41	22,70	—	22,70	+ 29	3 04	Figures in columns (2) to (4) inclusive relate to whole rupees only Those in column (5) include in addition the amount of small silver coinage
1895-96	22,70	—	22,70	17,97	—	17,97	- 4,73	24	
1896-97	17,97	—	17,97	13,75	—	13,75	- 4,22	6 80	
1897-98	13,75	—	13,75	14,51	—	14,51	+ 76	97 88	
1898-99	14,51	—	14,51	15,15	—	15,15	+ 64	37-25	
1899-1900	15,15	—	15,15	5,24	—	5,24	- 9,91	1,32 08	
1900-01	5,24	—	5,24	9,42	—	9,42	+ 4,18	16,93 65	
1901-02	9,42	—	9,42	11,13	—	11,13	+ 1,71	3,82 40	
1902-03	11,13	—	11,13	10,93	—	10,93	- 20	3,24 98	
1903-04	10,93	—	10,93	11,49	—	11,49	+ 56	11,15 53	
1904-05	11,49	—	11,49	11,36	—	11,36	- 13	7,81 20	
1905-06	11,36	—	11,36	13,58	—	13,58	+ 2,22	16,87 67	
1906-07	13,58	—	13,58	13,70	6,00	19,70	+ 6,12	23,37 81	
1907-08	13,70	6,00	19,70	25,18	6,00	31,18	+ 11,48	15,69 16	
1908-09	25,18	6,00	31,18	31,12	15,88	47,00	+ 15,82	24 51	
1909-10	31,12	15,88	47,00	29,28	3,80	33,08	- 13,92	11 39	
1910-11	29,28	3,80	33,08	26,06	2,90	28,96	- 4,12	19 94	
1911-12	26,06	2,90	28,96	15,40	2,90	18,30	- 10,66	—	
1912-13	15,40	2,90	18,30	16,45	6,00	22,45	+ 4,15	15,75 00	
							Total	117,26 93 4	Difference between stocks held 1st April 1894 and 1st April 1913
								117,22 93 617 21	

The stock of rupees in Paper Currency Reserve at 1st April 1894 was 2,241 lakhs The stock in Paper Currency Reserve and Gold Standard Reserve combined at 31st March 1913 was 2,245 lakhs Thus the average annual addition from new coinage required (see col 5) to keep up a stock of 2,241 lakhs appears to be 617 21 lakhs  $\left(\frac{117,22\ 93}{19}\right)$

## NOTE II

(See paragraph 6 of Memorandum, p 240)

Increases in invested portion of Paper Currency Reserve sanctioned in  
1904 and 1911 Correspondence between Government of India  
and Secretary of State

Letter from the Government of India, No 295, dated 18th August 1904, to  
the Secretary of State for India

Simla,  
18th August 1904

Sir,

We have the honour to submit, for your favourable consideration, a proposal to amend Section 19 of the Indian Paper Currency Act, 1882 (XX of 1882), so as to raise from ten to twelve crores of rupees, the amount of the Paper Currency Reserve which may be invested, and to permit of the additional two crores being held by the Secretary of State in London in gold securities of the Government of India or of the United Kingdom

2 The maximum limit of the invested portion of the Reserve was raised in 1896 from eight to ten crores, and, acting on the sanction accorded in Lord George Hamilton's telegram of the 17th of December 1896, Lord Elgin's Government increased the investment in that month to the full amount permissible by law

3 Since that time there has been a large increase in the circulation of currency notes, as the following figures show The average, minimum, and maximum of the total circulation for the years 1896-97 to 1903-04 have been (in lakhs of rupees) —

	1896 97	1897-98	1898 99	1899-1900	1900 01	1901-02	1902 03	1903 04.
Average	25,98	24,24	25,63	27,96	28,88	30,03	33,74	36,41
Minimum	23,58	22,86	23,25	26,26	27,90	27,68	31,25	33,94
Maximum	29,59	24,76	28,20	29,27	30,78	31,86	35,72	38,21

Excluding the notes held in the Government Reserve Treasuries and at the head offices of the Presidency Banks, these figures become modified as follows —

	1896 97	1897 98	1898 99	1899-1900	1900-01	1901 02	1902-03	1903 04.
Average	21,40	20,35	20,79	23,09	23,86	23,16	25,74	28,70
Minimum	20,57	19,44	19,43	21,94	22,85	22,39	23,93	27,44
Maximum	22,38	21,20	22,49	24,41	25,02	24,40	27,35	30,30

4. It will be seen that the average net circulation has risen in these seven years from 21 4 to 28 7 crores, or by 34 per cent, and that an increase of two crores in the invested portion of the Reserve would raise the latter to less than 42 per cent of the average net circulation of the past year We do not think it safe to assume that the high level of that year will invariably be

maintained, but in view of the fact that the minimum net circulation has not fallen below 22,39 lakhs in the last four years, we are of opinion that the proposed increase of the investment is fully justified

5 We have consulted the Presidency Banks and the Chambers of Commerce on the subject, and we enclose a copy of their replies. It will be seen that, with the solitary exception of the Bank of Bombay, they are unanimously of opinion that the investment can safely be increased to the extent proposed. We do not think it necessary to dwell on the objections raised by the Bank of Bombay, which are based on the theory that the rupees in India are, or are in danger of becoming, redundant. We have provided as far as possible against this danger by crediting the profits of coinage to the Gold Reserve Fund, and the steady growth of that fund affords, in our opinion, the best guarantee against the depreciation of the rupee. The argument of the Bombay Bank that gold should be held in India instead of being invested appears to be aimed against the investment of the Gold Reserve Fund rather than against the proposal now under discussion, and, since the principle of investment has been accepted in the case of that fund, (to the extent of a substantial portion thereof, though not necessarily to the whole) it seems to us to be unprofitable to discuss it in connection with the minor question of the investment of the Currency Reserve.

6 We turn therefore to the question of making the investment in gold securities. Different opinions have been expressed on this point, and some of the bodies consulted appear to have been influenced by considerations other than the security of the Reserve and the convertibility of the note issue. We hold strongly that these are the chief points to be considered, and that it would not be proper to admit into the discussion such considerations as the relief of holders of our 3 per cent rupee loan or the improvement of our credit as borrowers in India or in London.

7 The securities selected for investment should, we think, be such as would be readily realizable if it should become necessary to convert them into coin. Such a necessity is only likely to arise in the event of a serious financial or political crisis occurring in India, and in that case our rupee securities would inevitably be depreciated and difficult to sell, while it is probable that sterling securities would not be so seriously affected, owing to the greater capacity and solidity of the London market.

8 The possession of sterling securities would carry the further advantage that the proceeds would be receivable in London, *ie*, in the market in which, if more rupees were required, we should have to buy silver, and in which also, if gold were required for strengthening exchange, the demand would make itself felt.

9 Lastly, in the event of our being compelled to sell any of the securities held in the Currency Reserve, it would be convenient to have two or more classes of stock to choose from, and this power of selection would probably reduce the loss on the transaction.

10 For these three reasons we consider that the investment in sterling instead of rupee securities would be distinctly advantageous.

11 In the Despatch\* recommending the last increase in the investment of the Currency Reserve Lord Elgin's Government expressed a doubt whether, in considering a proposal put forward solely from the point of view of the Currency Reserve, it was right to be influenced by the possible effect which the measure might have upon the exchange value of the rupee. We are emphatically of opinion that the primary and essential function of the Currency Reserve is to secure the convertibility of notes into current coin, and that nothing whatever should be allowed to interfere with the arrangements best suited for that purpose. But so long as this condition is scrupulously satisfied, we see no reason why, in the management of the

\* No 131, dated the 2nd June 1896

Reserve, we should not have regard to any incidental advantage which may arise therefrom. In the years which have elapsed since Lord Elgin's despatch was written it has been found that the Currency Reserve forms an important, if not an essential, part of the machinery by which the par of exchange between the sovereign and the rupee is maintained. The maintenance of a stock of both coins in the Reserve enables us to exchange them freely in India, and if a demand for gold for export should arise, owing to a temporary weakening of exchange, we should be able to meet it to a not inconsiderable extent from the Currency Reserve without depressing the sterling value of the rupee and without drawing upon the Gold Reserve Fund. Conversely the stock of rupees in the Reserve enables us to absorb redundant sovereigns and to retard the undue appreciation of the rupee until silver can be obtained from England for coinage.

12 In determining, therefore, the amount of coin which it is advisable to retain in the Currency Reserve, we are of opinion that it is not improper to take into account this secondary function which the Reserve performs in providing a margin against temporary fluctuations of exchange, and we have considered the question from this point of view. It will be observed that the Banks of Bengal and Bombay have been influenced by similar considerations. The approval of the former to the increase of the investment is subject to the proviso that the proportion of the gold held in the Reserve should be limited and not allowed to rise unduly to the prejudice of the silver reserve, while the view of the latter Bank is, as observed above, that the possession of a large sum of gold in the Reserve will strengthen the position as regards stability of exchange.

13 The proportion of silver in the Reserve which we have found by experience to be sufficient at the opening of the busy season, when the demand for rupees sets in, is approximately one-third of the total note circulation, and we have recently laid before you a suggestion to supplement the coined rupees by a special reserve of three crores worth of silver. The average gross note circulation in the past year was 36 41 crores, and if a silver reserve were held against this, consisting of one-third (12 14 crores) in rupees plus 3 crores uncoined, an investment of 12 crores would leave a margin of 9½ crores to be held in gold. If the average circulation of the past four years be taken, the margin available for gold would still be 6½ crores. We consider that the margin thus indicated is ample, and that a larger proportion of gold is not at present required in this country.

14 On the above grounds we ask your permission to introduce a Bill during the next Calcutta session to give effect to the proposal stated in the first paragraph of this despatch. We propose to take up the necessary legislation in Calcutta, firstly, because it is desirable to allow the measure to be fully discussed by the representatives of commercial interests; and, secondly, because we have in hand the preparation of a Bill for the simplification and consolidation of the Paper Currency Act, which will probably have to be referred for your orders and will in that case not be ripe for introduction until the Calcutta session. We hope to be able to deal with all pending matters relating to the Currency Reserve in one Bill, but, in view of the importance of the present proposal, we have thought it advisable to refer it to you separately.

We have, &c,

(Signed)

AMPTHILL  
KITCHENER.  
E. F. G. LAW.  
E. R. ELLES.  
A. T. ARUNDEL.  
H. E. RICHARDS.



## Enclosure No. 1

Letter to the Chambers of Commerce and the Presidency Banks, No 2632A,  
dated the 29th April 1904, and enclosures

SIR, Simla,  
29th April 1904

I am directed to request that the Chamber of Commerce will favour the Government of India with an expression of <sup>its</sup> <sub>their</sub> opinion on a proposal, which is under the consideration of the Governor-General in Council, to take power by legislation to increase the invested portion of the Paper Currency Reserve from ten to twelve crores of rupees

2 The history of the invested Reserve, and the considerations which have from time to time moved the Government of India to increase it, are set forth in Mr Finlay's letters No 6468, dated 23rd December 1889, and No 5318A, dated 7th November 1895, of which copies are enclosed for reference. It has throughout been the policy of the Government of India to fix the limit for investment well within the amount of notes which has been found by experience to be necessary for the monetary transactions of the country and which may therefore confidently be expected to be always outstanding. The Governor-General in Council has approached the present proposal with the same guiding principle in view.

3 Tables are appended to this letter showing month by month from the year 1887-88 the gross circulation of currency notes in India, and also, from the year 1889-90, the net circulation, excluding the amounts held in the Reserve Treasuries of the Government and at the head offices of the Presidency Banks. It is to the latter figures that the Government of India chiefly look in estimating the permanent circulation among the public. From the following analysis of these figures the proposed increase of the investment to 12 crores would appear to be fully justified.

4 Prior to the last increase of the investment, which was made in December 1896, the average and minimum net circulation had been as follows—

	Average (Lakhs)	Minimum (Lakhs)
1893-94 - - -	19,23	18,24
1894-95 - - -	20,21	18,64
1895-96 - - -	22,11	20,83
1896 (8 months)* - - -	21,71	21,37
Average - - -	20,73	19,77

\* April to November

The corresponding statistics for the last four years are given below—

	Average (Lakhs)	Minimum (Lakhs)
1900-01 - - -	23,86	22,85
1901-02 - - -	23,16	22,39
1902-03 - - -	25,74	23,93
1903-04 - - -	28,70	27,44
Average - - -	25,36	24,15

5 The sum of 10 crores of rupees to which the investment was raised in 1896 amounted to 48·24 per cent on the previous average net circulation as worked out above, and to 50·58 per cent on the average minimum of such circulation. A further increase now to 12 crores would bring the investment up to 47·32 per cent on the more recent average of the net circulation and to

49.69 per cent on the average minimum. The present circumstances correspond therefore very closely to those which prevailed in 1896, and the reasons which were put forward for an increase of the investment in that year, and which were subsequently justified by results, appear to the Government of India to be equally operative now, and fully to justify a further increase. The case for a further investment of two crores is even stronger at the present time than it was in 1896 because the net circulation has lately shown a very rapid tendency to increase, and this increase may be taken as an index of a growth of the monetary transactions of the country and consequently of the minimum amount of notes which will be necessary for such transactions.

6 Moreover, in 1896 some doubts were expressed as to the effect on the stability of exchange of a measure which would result in increasing the rupee circulation by two crores. At the present time the stock of gold in the Currency Reserve is so high that the Government of India could view with equanimity such an addition to the silver currency.

7 In this connection I am to point out that the gold held in the Reserve affords a means of effecting the proposed investment without altering the volume of the rupee currency, and I am to say that it has been suggested to the Government of India that it would be desirable for some reasons to make the investment, not in rupee securities, but in sterling securities, either of the British Government or of the Government of India. The Government of India would be glad to learn whether <sup>the Chamber has</sup> Your Directors have any observations to offer on this suggestion.

8 As on former occasions, if it should be decided that an increase in the amount of the investment may safely be made, care would be taken to exercise the power only on some convenient opportunity when it would be possible to carry out the operation without prejudicing the market in Government securities.

I have &c,  
R A MANT,  
Deputy Secretary to the Government of India

I--Statement showing the Circulation of Paper Currency for all India  
(In lakhs of Rupees)

Month.	1887-88	1888-89	1889-90	1890-91	1891-92	1892-93	1893-94	1894-95	1895-96	1896-97	1897-98	1898-99	1899-1900	1900-01	1901-02
April -	14.02	16.54	15.83	17.42	25.71	23.96	24.22	30.64	30.76	25.92	23.91	24.28	28.02	27.90	23.59
May -	13.90	17.03	15.77	17.65	26.18	25.28	24.69	31.13	30.17	26.89	22.36	23.26	23.25	28.65	29.08
June	14.03	17.69	16.24	17.94	26.81	26.77	26.49	31.40	30.86	27.78	23.39	24.92	29.14	30.41	31.82
July	15.48	18.06	16.50	19.18	27.04	28.46	27.05	31.20	32.43	29.69	24.76	26.34	29.27	30.78	31.69
August	15.66	17.69	16.15	20.50	26.93	29.06	28.30	31.57	31.54	28.23	24.60	26.32	28.76	28.44	30.88
September	16.78	16.94	16.14	22.97	26.24	28.97	29.98	31.23	30.37	26.89	24.74	25.64	27.63	28.31	30.55
October -	17.78	16.74	16.63	25.66	25.99	28.94	28.59	31.81	29.93	25.08	24.59	25.84	27.67	28.30	31.86
November	18.61	15.50	16.67	26.54	25.88	28.83	29.62	32.36	28.39	24.53	24.65	25.79	27.33	28.35	30.60
December	17.69	15.15	15.47	27.04	24.85	26.05	30.13	31.45	27.82	25.23	23.79	25.20	26.26	28.06	28.07
January	17.08	15.28	16.29	27.66	22.62	26.61	30.52	29.60	27.12	24.27	24.32	25.67	27.18	29.37	27.93
February	16.45	14.88	16.37	26.42	22.90	25.86	30.20	30.35	25.99	23.58	24.53	26.24	27.27	28.10	27.68
March -	16.42	15.74	15.77	25.69	24.08	26.40	30.41	30.70	25.94	23.75	24.76	23.20	23.74	29.87	31.66
Average	16.16	16.43	16.15	22.89	25.44	27.10	28.29	31.11	29.28	25.98	24.24	25.63	27.96	28.88	30.03
Maximum	18.61	18.06	16.67	27.66	27.04	29.06	30.62	32.36	32.43	29.59	24.76	28.30	29.27	30.78	31.86
Minimum	13.90	14.83	15.47	17.42	22.62	23.96	24.22	29.50	25.94	23.58	22.66	23.25	26.26	27.90	27.68

I—Statement showing the Circulation of Paper Currency excluding amounts held by the Government Reserve Treasuries and by the Presidency Banks at their Head Office (In lakhs of Rupees)

Month	1889-90	1890-91	1891-92	1892-93	1893-94	1894-95	1895-96	1896-97	1897-98	1898-99	1899-1900	1900-01	1901-02
April	13,20	13,71	17,28	18,72	20,84	18,64	21,81	21,96	20,33	19,78	22,50	23,61	23,13
May	13,39	13,96	17,41	19,47	19,99	19,00	21,34	21,53	19,66	20,10	22,08	23,67	22,83
June	13,40	13,66	17,90	19,97	19,49	19,09	20,83	21,01	19,75	19,43	22,19	23,85	23,81
July	13,44	13,73	17,37	20,69	19,19	18,10	21,49	21,37	20,20	20,16	21,94	22,65	22,68
August	12,95	14,48	17,61	20,49	18,96	19,43	21,58	21,75	20,67	20,37	22,63	23,15	22,45
September	13,20	15,13	17,69	21,66	19,09	19,55	22,37	21,51	21,16	20,42	22,69	23,84	23,39
October	13,51	15,88	19,17	22,12	18,83	20,12	23,04	22,38	21,08	20,59	23,67	24,42	22,86
November	13,31	15,67	19,01	22,30	18,84	20,65	22,84	21,60	21,20	21,31	23,50	25,02	23,34
December	13,69	16,59	19,39	22,40	19,66	21,82	23,02	20,99	20,73	21,47	23,83	24,58	23,97
January	13,62	16,92	18,21	21,76	19,19	22,15	22,52	20,60	20,18	21,53	23,54	23,62	23,28
February	13,33	17,51	18,44	21,33	18,24	21,65	22,40	20,57	19,44	21,90	23,77	23,65	23,35
March	13,50	17,62	18,45	21,68	18,49	21,31	22,14	20,76	19,83	22,49	24,41	24,14	24,40
Average	13,38	15,40	18,16	21,04	19,23	20,21	22,11	21,40	20,35	20,79	23,09	23,86	23,40
Maximum	13,69	17,62	19,39	22,40	20,84	22,15	23,04	22,38	21,20	22,49	24,41	25,02	24,40
Minimum	12,95	13,66	17,28	18,72	18,24	18,64	20,83	20,67	19,44	19,43	21,94	22,55	22,39

No I.—Statement showing the Circulation of Paper Currency for all India (In lakhs of Rupees)

Month	1902-03	1903-04
April	31,25	33,94
May	31,56	35,13
June	33,59	36,57
July	35,20	37,57
August	35,58	37,70
September	34,65	36,61
October	34,36	37,00
November	34,26	36,98
December	33,74	34,43
January	32,12	35,47
February	32,85	37,29
March	35,72	38,21
Average	33,74	36,41
Maximum	35,72	38,21
Minimum	31,25	33,94

No II—Statement showing the Circulation of Paper Currency excluding amounts held by the Government Reserve Treasuries, and by the Presidency Banks at their Head Offices (In lakhs of Rupees)

Month	1902-03	1903-04
April	23,93	27,58
May	24,02	27,44
June	24,62	27,69
July	24,96	27,85
August	25,29	28,01
September	25,17	28,12
October	23,51	28,56
November	25,94	29,28
December	27,35	29,96
January	26,99	29,13
February	27,00	29,54
March	27,12	30,30
Average	25,74	28,70
Maximum	27,35	30,30
Minimum	23,93	27,44

Letter No 6468, dated 23rd December 1889, from J F Finlay, Esq.,  
 Officiating Secretary to the Government of India, Finance and Commerce  
 Department, to the Secretary to the Chamber of Commerce, Calcutta  
Madras  
Bombay

I am directed by His Excellency the Governor General in Council to request that the Chamber of Commerce, Calcutta, Madras, Bombay, will be good enough to favour the Government of India with an expression of its opinion upon a proposal to increase the portion of the Paper Currency Reserve which is invested in Government securities

2 When the issue of a Government Paper Currency was first considered by the Government of India in 1860, it was proposed to fix the limit of the portion of the Reserve which might be invested in Government securities at a fixed proportion, two-thirds, of the value of notes in circulation. But it was decided that the safer and sounder principle was to prescribe a fixed sum as the limit, that sum being somewhat less than the smallest aggregate amount of notes which experience had proved to be necessary for the monetary transactions of the country. It was considered that notes to this amount at least would always be outstanding, and that consequently it would not be necessary to keep coin in reserve for the purpose of cashing them. When this principle was adopted it was contemplated that it would be necessary to vary the limit in accordance with the circumstances of the times, and that the maximum sum that might be invested in Government securities would be fixed from time to time by legislation. In the Paper Currency Act of 1861, the sum to be so invested was fixed at four crores of rupees. In 1870 in view of the facts that the note circulation had increased considerably since that limit was fixed, and that the investment in Government securities bore a much smaller proportion to the total reserve than when the Act of 1861 was first brought into operation the limit was raised to six crores. The minimum circulation of each year from 1862 to 1870 will be found in the statement appended. The maximum limit of investment in Government securities is still six crores of rupees.

3 Since 1870 the note circulation has greatly increased, as will be seen from the Statement attached. In that year the minimum circulation was about  $8\frac{3}{4}$  crores of rupees, but since 1880-81 the minimum circulation has never fallen as low as 12 crores, for the last five years the minimum has exceeded 13 crores, and in the present year it approaches 16 crores. There is no reason to doubt that the minimum circulation in the future will continue to be at least 50 per cent in excess of the minimum of 1870. With a minimum circulation in the present year of, say,  $15\frac{3}{4}$  crores, the investment of the Reserve remaining at six crores, the sum held in coin and bullion amounts to about  $9\frac{3}{4}$  crores.

4 The primary consideration in dealing with this question must be the necessity of securing the immediate convertibility of the note under all circumstances to which we can reasonably look forward. His Excellency in Council has no doubt that the reserve held in coin and bullion at the present time is more than sufficient to secure convertibility under all ordinary conditions, and the question to be decided is whether or not it is necessary to maintain the present high rate of reserve with a view to possible difficulties of the future which may never arise. In connection with this aspect of the case, I am to call the attention of the Chamber to Section 21 (1) of the Paper Currency Act, 1882, under which the general credit of Government is pledged for the convertibility of the note. The Currency Reserve would, therefore, be supplied in case of need by the cash balance at the disposal of the Government of India, and the note would not cease to be convertible, even if the Currency Reserve was exhausted, so long as the Government of India could spare funds from the general cash balance at its disposal. The proposal

which has been under the consideration of the Government of India is to take power from the Legislature to increase the amount of the invested reserve to eight crores of rupees, but it is not intended for the present to increase the investment by more than one crore, any further increase up to the limit of eight crores being made only if and when circumstances are favourable, and it is possible that even the increase of one crore might not be made for some time

5 I am to say that His Excellency in Council will be glad to be favoured with the views of the Chamber as early as may be convenient

Statement showing Minimum Currency Note Circulation and the Reserve in Securities on Bullion and Coin since March 1862

1	2	3	4	5	6	7
Month in which the Currency Note circulation of each Year since 1862 was the lowest	Minimum Note circulation referred to in (1)	Metallic Reserve of the Currency Department (Silver and Gold* Coin and Silver Bullion)	Reserve held in Government Securities	Silver Coin included in (3)	Per centage of (3) on (2)	Per centage of (5) on (2)
	Rs	Rs	Rs	Rs		
March 1862-63	3,69,00,000	3,69,00,000	—	3,69,00,000	100	100
May 1863-64	5,01,00,000	4,33,75,420	67,24,580	3,03,75,420	86 58	60 63
June 1864-65	5,99,25,690	2,95,30,680	3,03,95,010	2,12,30,680	49 28	35 43
February 1865-66	6,87,48,020	2,89,45,480	3,98,02,540	1,81,75,310	42 10	26 44
April 1866-67	7,02,02,540	3,04,00,010	3,98,02,530	2,68,99,800	43 33	38 32
" 1867-68	7,83,54,890	4,58,34,340	3,25,20,550	3,82,25,130	58 49	48 78
" 1868-69	8,91,63,970	5,66,43,420	3,25,20,550	5,12,34,210	63 53	57 46
" 1869-70	9,80,32,010	5,89,01,940	3,91,90,070	3,43,73,730	60 08	35 06
May 1870-71	8,68,19,030	5,55,63,670	3,12,55,360	4,17,14,450	63 99	48 05
April 1871-72	10,13,06,840	6,90,34,830	3,22,72,010	6,31,88,450	68 14	62 37
March 1872-73	11,13,50,610	5,44,11,080	5,69,39,530	4,33,58,500	48 86	38 04
" 1873-74	9,24,97,610	3,55,58,080	5,69,39,530	2,29,10,510	38 44	24 77
April 1874-75	9,27,43,390	3,58,03,860	5,69,39,530	2,42,34,270	38 65	26 13
" 1875-76	10,75,44,640	5,06,05,110	5,69,39,530	4,20,46,580	47 05	39 09
May 1876-77	10,70,38,540	5,00,99,010	5,69,39,530	5,00,07,840	46 85	46 72
April 1877-78	11,13,05,280	5,13,24,380	5,99,80,900	3,73,00,200	46 11	33 51
March 1878-79	11,42,36,450	5,42,45,280	5,99,91,170	3,78,99,040	47 48	33 18
May 1879-80	11,17,12,730	5,25,39,570	5,91,73,160	3,93,10,380	47 03	35 19
April 1880-81	12,88,52,650	6,88,81,900	5,99,70,750	5,83,89,340	53 46	45 31
" 1881-82	12,85,58,290	6,86,34,110	5,99,24,180	6,69,00,000	53 39	52 04
" 1882-83	14,19,99,180	8,19,99,210	5,99,99,970	6,95,44,960	57 74	48 97
January 1883-84	12,10,91,100	6,10,91,130	5,99,99,970	5,67,25,500	50 45	46 84
April 1884-85	12,34,24,500	6,34,24,510	6,00,00,000	5,24,00,280	51 39	42 46
" 1885-86	13,01,78,470	7,01,80,970	5,99,97,500	5,21,37,450	53 91	40 05
" 1886-87	13,77,94,000	7,77,99,000	5,99,95,000	6,41,38,820	56 46	46 55
May 1887-88	13,90,32,420	7,90,39,920	5,99,92,500	7,08,77,980	56 85	50 98
February 1888-89	14,82,98,050	8,88,08,020	5,94,90,030	7,89,34,730	59 88	53 23
31st May 1889-90	15,76,65,640	9,78,45,610	5,98,20,030	8,73,41,442	62 06	55 39
Total Circulation since May 1889						
30th June 1889-90	16,24,30,050	10,26,10,021	5,98,20,029	9,72,16,771	63 17	59 85
31st July 1889-90	16,49,51,130	10,51,31,101	5,98,20,029	9,97,63,602	63 73	60 48
31st Aug 1889-90	16,15,23,510	10,15,23,530	5,99,99,980	9,22,08,752	62 85	57 08
30th Sept 1889-90	16,13,80,895	10,13,80,915	5,99,99,980	9,04,04,379	62 82	56 02
31st Oct 1889-90	16,62,98,105	10,62,98,125	5,99,99,980	9,53,17,630	63 92	57 32
30th Nov 1889-90	16,66,77,605	10,66,77,625	5,99,99,980	9,79,93,406	64	58 79

\* From 1865 to February 1876

Letter No 5318A, dated 7th November 1895, from J F Finlay, Esq, Secretary to the Government of India, Finance and Commerce Department, to the Secretary, Chamber of Commerce, <sup>Calcutta</sup> ~~Madras~~ <sup>Bombay</sup>

I am directed by His Excellency the Governor-General in Council to request that the Chamber of Commerce will be good enough to favour the Government of India with an expression of their opinion upon a proposal to take power from the Legislature to raise the limit of the Paper Currency Reserve which is held in Government securities, from eight to ten crores of rupees

2 The maximum limit of the invested Reserve was raised on the last occasion in 1890 from six to eight crores by Act XV of 1890, and in accordance with the requirements of the Currency Act the increases to the investment from time to time were separately notified, the limit of the investment having been raised to seven crores by the Notification in this Department, No 5900, dated 19th December 1890, and to eight crores by the Notification No 4861, dated 3rd December 1891

3 The considerations involved in the question of an increase in the currency investment were fully discussed in 1890, and the history of the subject was brought down to 1889 in my letter to the Chambers of Commerce No 6468, dated 23rd December 1889, a copy of which is enclosed. The following table gives the figures of the circulation of Paper Currency for all India from 1887-88 (*in lakhs of Rupees*) —

Month	1887-88	1888-89	1889-90	1890-91	1891-92	1892-93	1893-94	1894-95	1895-96
April - -	14.02	16.54	15.83	17.42	25.71	23.96	24.22	30.64	30.76
May - - -	13.90	17.03	15.77	17.65	26.18	25.28	24.99	31.13	30.17
June - - -	14.08	17.69	16.24	17.94	26.81	26.77	26.49	31.40	30.86
July - - -	15.48	18.06	16.50	19.18	27.04	28.46	27.05	31.20	32.43
August - -	15.66	17.69	16.15	20.50	26.93	29.06	28.30	31.57	31.54
September -	16.78	16.94	16.14	22.97	26.24	28.97	28.98	31.23	—
October - -	17.78	16.74	16.63	25.66	25.99	28.94	28.59	31.81	—
November -	18.61	15.50	16.67	26.54	25.88	28.83	29.62	32.36	—
December -	17.69	15.15	15.47	27.04	24.85	26.05	30.13	31.45	—
January - -	17.08	15.28	16.29	27.66	22.62	26.61	30.52	29.50	—
February -	16.45	14.83	16.37	26.42	22.90	25.86	30.20	30.35	—
March - - -	16.42	15.74	15.77	25.69	24.08	26.40	30.41	30.70	—
Average - -	16.16	16.43	16.15	22.89	25.44	27.10	28.29	31.11	—
Maximum - -	18.61	18.06	16.67	27.66	27.04	29.06	30.52	32.36	—
Minimum - -	13.90	14.83	15.47	17.42	22.62	23.96	24.22	29.50	—

The above figures indicate that the total circulation of currency notes has steadily increased since the year 1887-88, and has now reached a figure about double that of the year 1889-90. But the Government of India are of opinion that these figures of total circulation show the increase as larger than can be considered to be the normal increase which may, with due regard to the caution desirable in the discussion of the question now under consideration, be counted on as certain to continue. In the first place, the Government balances during the past two years have been unusually high, and a great portion of the excess balances, held in the Government Reserve Treasuries in currency notes is included in the circulation. Secondly, the figures include the notes held by the Presidency Banks at their head offices, but the demands for encashment of notes so held are occasionally so large that a considerable portion of them cannot be treated as permanently in circulation.

4. On the grounds above explained, it is considered that for the present purpose it is desirable, in order to prevent all risk of over estimating the

permanent circulation, to exclude the balances of currency notes in the head offices of the Presidency Banks and in the Reserve Treasuries from the total circulation. After such exclusion the figures for 1889-90 and subsequent years in the Table in paragraph 3 will stand as follows—(In lakhs of Rupees)

Month	1889-90	1890-91	1891-92	1892-93	1893-94	1894-95	1895-96
April - - -	13,20	13,71	17,28	18,72	20,84	18,64	21,81
May - - -	13,39	13,96	17,41	19,47	19,99	19,00	21,34
June - - -	13,40	13,66	17,90	19,97	19,49	19,09	20,83
July - - -	13,44	13,73	17,37	20,59	19,19	19,10	21,49
August - - -	12,95	14,48	17,61	20,49	18,96	19,49	21,58
September - - -	13,20	15,13	17,69	21,66	19,09	19,55	—
October - - -	13,51	15,88	19,17	22,12	18,83	20,12	—
November - - -	13,31	15,67	19,01	22,30	18,84	20,65	—
December - - -	13,69	16,59	19,39	22,40	19,66	21,82	—
January - - -	13,62	16,92	18,21	21,76	19,19	22,15	—
February - - -	13,33	17,51	18,44	21,33	18,24	21,65	—
March - - -	13,50	17,62	18,45	21,68	18,49	21,31	—
Average - - -	13,38	15,40	18,16	21,04	19,23	20,21	—
Maximum - - -	13,69	17,62	19,39	22,40	20,84	22,15	—
Minimum - - -	12,95	13,66	17,28	18,72	18,24	18,64	—

From this Table it is observed that when the last increase to the investment was discussed towards the end of 1889, the circulation (excluding balances in the Reserve Treasuries and head offices of the Presidency Banks) amounted to only about 13 to 13½ crores, while during the three years ending 1894-95 the minimum circulation has been well above 18 crores

5 On a consideration of the figures given above, it appears to the Government of India that the circulation of Currency notes has now attained a level about 50 per cent higher than in the year 1889-90, and that it will be quite safe now to raise the limit of the investment to ten crores. The figures might indeed justify an even greater increase in the investment, but the Government of India do not desire to go to the full limit of safety. An investment of the Reserve to the extent of ten crores would represent only about 50 per cent of the average circulation as given in paragraph 4. The proposed increase would therefore appear to leave a fully sufficient margin to secure the immediate convertibility of the note even during a commercial crisis. As previously explained in paragraph 4 of my letter of 23rd

December 1889, over and above the reserve of coin and securities, the general credit of Government is pledged for the convertibility of the note under section 21 (1) of the Paper Currency Act.

6 The proposal which His Excellency the Governor-General in Council is disposed to make now is to take power from the Legislature to increase the limit of the investment from eight to ten crores, and for the reasons above explained, he considers, subject to the opinions he may receive from the Presidency Banks and the Chambers of Commerce, that this power may be used with safety on some convenient occasion when it may be possible to carry out the operation without affecting the public market.

7 I am to say that His Excellency in Council will be glad to be favoured with the views of the Chamber as early as may be convenient.

## Enclosure No 2

No G P L 122-6, dated Madras, the 17th May 1904

From J Kerr Greig, Esq, Acting Secretary and Treasurer, Bank of Madras,  
to the Secretary to the Government of India, Finance and Commerce  
Department

I have the honour to acknowledge receipt of your letter No 2632A, dated the 29th ultimo, on the subject of a proposal, which is under the consideration of the Governor-General in Council, to take power by legislation to increase the invested portion of the Paper Currency Reserve from 10 to 12 crores of rupees, and in reply I am desired to say that, in view of the recent increase in the permanent circulation, my Directors are of opinion that the proposed increase of two crores of rupees in the invested portion of the Reserve may be made with safety

2 My Directors are also of opinion that the investment should be made in rupee securities of the Government of India as giving the best return, and it appears to them that advantage might be taken of the issue of the new loan as a convenient opportunity to carry out the operation without prejudice to the market

## Enclosure No 3

Dated Cawnpore, the 23rd May 1904

From A. Shakespear, Esq, Assistant Secretary, Upper India Chamber of  
Commerce, to the Secretary to the Government of India, Finance and  
Commerce Department

I am directed to acknowledge receipt of your letter No 2632A, dated 29th ultimo, inviting the views of this Chamber on a proposal to augment the invested portion of the Paper Currency Reserve by a transfer of two crores of rupees from the metallic Reserve

2 My Committee have carefully studied the correspondence dealing with the past history of the Currency Reserve, which served as an accompaniment to your communication, and in their opinion the present position fully justifies the proposal now put forward, which is deserving of the undivided support of the commercial community.

The question involved in paragraph 7 of your letter is perhaps a difficult one to express an opinion on without a fuller knowledge of the principles which are to regulate the Government of India's policy with regard to future borrowings, but looking to the fact that it would result in a reduction in the amount of interest payable in sterling, my Committee are disposed to recommend that Indian sterling loans should be selected for investment of the Currency Reserve, and the present ratio of gold and silver composing the metallic Reserve would seem to indicate the expediency of releasing two crores from the gold portion of the Reserve

## Enclosure No 4

Dated Bombay, the 26th May 1904.

From C. H. Armstrong, Esq, Chairman, Bombay Chamber of Commerce, to  
the Secretary to the Government of India, Finance and Commerce  
Department.

Under the instructions of the Committee of the Bombay Chamber of Commerce, I have the honour to acknowledge the receipt of your letter No 2632A, of the 29th April 1904 (with accompaniments), in which the opinion of the Chamber is invited relative to a proposal, which is under the



consideration of the Governor-General in Council, to take power by legislation to increase the invested portion of the Paper Currency Reserve from ten to twelve crores of rupees

2 The matter has received very careful consideration, and I am now instructed to say—

- (1) The Committee are in favour of the invested portion of the Paper Currency Reserve being raised from 10 to 12 crores as the position at present seems to warrant such an increase
- (2) With reference to the enquiry in paragraph 7 of the Government of India's letter as to whether this Chamber has any observations to offer on the suggestion that the investment might be made in sterling securities, my Committee desire to remark that as a depletion of the moderate supply of coined rupees now held in the silver Reserve seems to them undesirable, they favour the proposed investment being made in sterling securities, the stock of gold which at the present time is not much needed for the purposes of circulation being sufficient for such a purpose

Should the Government of India decide, however, on investing in silver securities, my Committee would suggest that consideration be shown to the holders of the 3 per cent Loan and that the investment should be largely made in this paper

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Enclosure No 5

Dated Rangoon, the 20th May 1904

From The Honourable C H Wilson, C.I.E., Chairman, Rangoon Chamber of Commerce, to the Secretary to the Government of India, Finance and Commerce Department

I have the honour to acknowledge the receipt of your letter No 2632A, dated 29th April 1904, with enclosures, inviting the opinion of this Chamber on (1) a proposal to increase the invested portion of the Paper Currency Reserve from 10 to 12 crores of rupees, and (2) on the suggestion that the additional investment should not be in rupee securities but in sterling securities either of the British Government or of the Government of India

2 In reply I have the honour to say that, the proposed increase of the invested portion of the Currency Reserve from ten to twelve crores appears to be in accordance with precedent, and the conservative policy hitherto pursued by the Indian Government in this connection, and in the opinion of the Committee, is amply justified by the facts and figures laid before them

3. With regard to the suggestion that the additional two crores should be invested in sterling securities either of the British Government or of the Government of India, the Committee venture to draw attention to the disparity still observable between the market values of these and the rupee securities of the Indian Government, a disparity which can only be due to the scepticism still prevalent in some quarters as to the stability of Indian exchange

4 The Committee believe that any investment of the nature suggested, would tend still further to accentuate this divergence to the obvious detriment alike of the Indian Government and the Indian investor, while a converse effect should be produced by an investment of the two crores in rupee securities, for which reason the Committee are strongly in favour of the latter course.

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## Enclosure No 6

Dated Calcutta, the 25th May 1904

From W D Cruickshank, Esq, Secretary and Treasurer, Bank of Bengal,  
to the Secretary to the Government of India, Finance and Commerce  
Department

I have the honour to acknowledge receipt of your letter No 2632A, dated 29th ultimo, asking for the opinion of the Directors of the Bank on a proposal, which is under the consideration of the Governor-General in Council, to take power by legislation to increase the invested portion of the Paper Currency Reserve from 10 to 12 crores of rupees. Your letter encloses for reference copies of Mr Finlay's letters of 23rd December 1889 and 7th November 1895, giving the history of the invested reserve and the considerations which have from time to time moved the Government of India to increase it.

The Directors have considered these letters, with the statements that accompanied them, and also the reports and statistics published by the Head Commissioner of Paper Currency.

2 The Directors observe that soon after the increase in the invested portion of the Currency Reserve in 1896 a considerable contraction of the gross note circulation took place, and that it continued for upwards of two years without showing any marked sign of recovery. The figures are as follows (*In lakhs of Rupees*) —

Years	Gross Note Circulation	Reserves			Investments	Proportion of Uninvested Reserve to Circulation.
		Silver	Gold.	Total		
1894-95 - -	31,11	23,11	—	23,11	8 00	74.28
1895-96 - -	29,28	21,28	—	21,28	8 00	72.67
1896-97 - -	25,98	17,31	—	17,31	10 00	66.62
1897-98 - -	24,24	14,22	—	14,22	10 00	58.66
1898-99 - -	25,63	14,93	70	15,63	10 00	60.98

In the years 1894-95 to 1897-98 the whole of the uninvested portion of the Currency Reserve consisted of silver only and it is understood that throughout the whole period even when the gross note circulation was at its lowest point, the coined rupees in hand were amply sufficient to meet all demands. The increase in the invested portion of the Currency Reserve effected in 1896 was therefore fully justified by results.

3 The expansion of the gross note circulation from the lowest point touched in 1897-98 has been continuous and important, but the uninvested effective reserve in silver has not increased in proportion, as gold has taken the place of silver to a very large extent. The following figures, which are taken chiefly from the Head Commissioner's Report, dated 31st July 1903, show the progress of the gross note circulation and Reserves for the last four years (*In lakhs of rupees*) —

Years	Gross Note Circulation	Reserves				Proportion of Uninvested Coin to Note Circulation.		
		Silver	Gold	Total	Investments	Silver	Gold.	Total.
1899-1900 -	27,96	11,43	6,54	17,96	10,00	40.84	23.39	64.23
1900-01 -	28,88	6,68	12,19	18,87	10,00	23.13	42.20	65.33
1901-02 -	30,03	12,42	7,62	20,04	10,00	41.35	25.37	66.72
1902-03 -	33,74	13,50	10,24	23,74	10,00	40.01	30.35	70.35

4 As already stated, the uninvested silver reserve from 1894-95 to 1898-99 appears to have been amply sufficient to meet all demands upon it,

but the same cannot be said of it throughout the years 1899-1900 to 1902-03. For the greater part of the calendar year 1900 the uninvested silver reserve in the Currency Department was inadequate, and the scarcity of silver coin caused great inconvenience to the public generally, and to traders some actual loss as well.

5 It was thought at the time that the Government of India delayed the coinage of silver because of an undue apprehension of a redundancy in the circulation, and a desire to increase the gold reserve to a high figure.

6. By means of coinage and large additions to the silver reserve the inconvenience was in time removed, and there has been no recurrence, but the experience is a recent one, and the recollection of it is apt to give rise to apprehension whenever the silver reserve shows a tendency to run down, or when large demands for silver coin appear to be probable, as was recently the case.

7 The amount of the invested Currency Reserve is fixed from time to time by legislation. The Directors do not at present go so far as to suggest that the amount of gold to be held in the uninvested Reserve should be similarly fixed, but they think it is desirable that provision be made departmentally for the replenishment of the silver reserve automatically whenever it may fall or show signs of falling to a certain point, and that this point should be fixed well above the amount which experience shows to be a safe provision for all probable demands.

8 Subject to the proportion of gold in the uninvested portion of the Currency Reserve being limited and not allowed to rise unduly to the prejudice of a safe silver reserve, I am to inform you that the Directors are of opinion that the proposal to increase the investments from 10 crores to 12 crores is warranted by the position and prospects of the note circulation of the country.

9 With regard to the suggestion that it would be desirable for some reasons to make the investment not in rupee securities but in sterling securities, either of the British Government or of the Government of India, I am to inform you that the Directors think that there is something to be said in favour of such a step, although it is a departure from ordinary practice. In the first place, the invested portion of a Currency Reserve, to be really effective in case of need, should be readily saleable, and there can be no doubt that sterling securities either of the British Government or of the Government of India would be more readily saleable in London than rupee securities either in this country or in London. Besides, as the sterling securities would doubtless be held in London, the proceeds of sales would be immediately available on the spot for the purchase of silver or gold, as required, at the chief source of supply. Again, the investment of the Currency Reserves in sterling securities would leave the issues of rupee paper free to investors in this country. In this connection I am instructed to attach hereto an extract from a letter addressed by the Bank to the Bengal Chamber of Commerce, on 15th November 1902, relative to the large increase that has taken place in previous years in the amount of rupee paper held by Native investors, and to the desirability of encouraging such investments. The statements referred to in that letter have been made up to date, and show a further marked increase in the amount of Native holdings, while there is corresponding decrease in the amount of rupee paper held in London.

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Extract from a Letter from the Secretary and Treasurer, Bank of Bengal, to the Secretary, Bengal Chamber of Commerce, Calcutta, dated 15th November 1902

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I beg to enclose herewith statements showing the amounts of enfaced and unenfaced rupee paper outstanding at the end of March each year since 1893, together with the amounts of all new issues and repayments, and, with reference thereto, to state that the Bank of Bengal attached great importance to the Government Rupee Loans being taken up and held in India, more especially by Native investors, and take every opportunity of encouraging this form of investment. You will observe that India has not only taken up and retained all Rupee Loans issued in the course of the last 10 years, but has also absorbed in the same period about 6½ crores worth of paper re-enfaced from London. The Bank hope that future Rupee Loans may issue on a scale and under conditions likely to maintain in the Indian money markets a supply of paper sufficient to meet investment demands, and that prices will be such as to induce Native investors to increase their holdings rather than tempt them to reduce them for the sake of a casual profit

Statement showing the proportion of the Registered Debt of India as held by Europeans and Natives respectively

	*Europeans.	Natives	Total
	Rs	Rs	Rs
December 1893 - - - -	74,63,75,463	24,62,55,993	99,26,32,456
June 1894 - - - -	70,86,48,389	28,17,22,896	99,03,71,285
December 1895 - - - -	74,25,96,645	23,31,37,053	97,57,33,698
" 1896 - - - -	79,90,04,884	23,44,60,747	1,03,34,65,631
" 1897 - - - -	53,63,44,086	42,07,78,746	1,05,71,22,831
" 1898 - - - -	64,89,74,628	41,87,99,343	1,06,77,73,971
" 1899 - - - -	65,99,40,921	40,69,65,605	1,06,69,06,524
" 1900 - - - -	65,27,00,394	41,46,08,330	1,06,73,08,724
" 1901 - - - -	71,92,27,451	39,72,13,696	1,10,66,41,147
" 1902 - - - -	69,15,44,758	42,96,91,716	1,12,12,36,474
" 1903 - - - -	68,77,55,951	45,33,73,923	1,14,11,29,874

\* This sum includes the Paper Currency Reserve and amount of enfaced Notes held in London

#### Changes in the Loans

	Per Cent.	Rs.	
1893 -	3½	3,50,00,000	1893-94 issued
" -	4½	7,34,32,467	Notified for discharge
1894 -	4	—	Converted into 3½ per cent
1895 -	3	4,00,000	1895-97 issued
" -	3	2,04,85,500	Do as per C G's No 428b, 19th December 1896
" -	3½	5,00,24,800	1893-94 and 1853-54, converted into 3 per cent and notified for discharge
1897 -	3½	3,00,00,000	1854-55 issued
1898 -	3½	1,20,00,000	Ditto
1899 -	portion	2,23,000	Notified for discharge
1900 -	3½	2,00,00,000	1900-01 issued
1901 -	3½	1,00,00,000	Ditto
1902 -	3½	1,50,00,000	Ditto
1903 -	3½	2,00,00,000	Loan increased

## Particulars of Rupee Debt

	4½ per cent	4 per cent	3½ per cent	3 per cent	*Sun dries	Total Rupee Debt	New Loans raised in Crores	Outstanding balances of un- faced Rupee Paper
	Rs	Rs	Rs	Rs	Rs	Rs		Rs
31st March 1893	1,36,81,417	25,28,63,259	5,21,800	—	9,83,953	96,76,50,929	3 5	25,93,38,613
" 1894	26,83,940	45,24,12,022	3,55,12,800	—	9,86,886	99,16,35,558	—	24,15,55,613
" 1895	8,92,160	10,52,00,952	87,20,33,200	—	9,61,396	97,95,58,688	—	23,62,61,907
" 1896	6,21,850	58,66,823	96,46,23,500	—	9,54,386	97,51,16,364	4 0	25,35,07,627
" 1897	5,14,950	52,42,123	91,32,42,600	10,95,68,200	9,52,386	1,02,95,00,164	3 0	24,03,66,627
" 1898	4,27,450	40,81,695	24,13,70,100	10,97,26,500	9,52,386	1,05,65,53,131	1 2	21,30,87,027
" 1899	3,88,750	35,78,923	95,19,70,900	11,07,05,100	7,75,766	1,06,74,15,451	—	21,44,12,334
" 1900	1,50,130	34,39,410	95,18,67,600	11,07,05,700	7,62,466	1,06,68,25,386	3 0	20,81,68,234
" 1901	1,16,050	31,34,210	93,18,14,700	11,07,07,300	7,62,466	1,09,65,95,124	1 0	22,18,12,134
" 1902	50,550	31,03,033	99,17,44,100	11,07,07,300	7,62,466	1,10,63,27,349	1 5	20,36,22,034
" 1903	77,850	29,35,550	1,00,67,09,500	11,07,08,300	7,91,066	1,12,12,22,276	2 0	18,53,35,034
" 1904	70,350	28,74,060	1,02,66,78,400	11,07,10,300	7,91,066	1,14,11,23,776	—	17,13,92,234

\* Treasury Notes  
 Treasury Notes Perpetual Bonds and B D in Madras  
 Ditto 6 per cent  
 Ditto 8½ per cent  
 Treasury Bills

## Enclosure No 7

Dated Madras, 6th June 1904

From the Hon Sir George Arbuthnot, Chairman, Madras Chamber of Commerce, to the Secretary to the Government of India, Finance and Commerce Department

I have the honour to acknowledge receipt of your letter of the 29th April, asking for an expression of the views of the Chamber with reference to a proposal which is under the consideration of the Governor-General in Council to take power by legislation to increase the invested portion of the Paper Currency Reserve from Rs 10 to Rs 12 crores

I have the honour to state that your letter has received the careful consideration of the Chamber, which is of opinion that it would be both safe and expedient in the interests of the tax-payers generally to make the proposed increase in the invested portion of the Paper Currency Reserve

With regard to the question as to whether the investment should be in rupee or sterling securities, this Chamber is decidedly of opinion that it should be in the rupee securities of the Government of India. To make the investment in the sterling securities of the British Government would seem to imply a doubt on the part of the Government of India of their own credit, and to make it in Indian Government sterling securities would be taken to imply an equally objectionable doubt of the permanency of their own exchange policy and the stability of Indian exchange. It will, this Chamber is of opinion, be in the interests alike of the Indian tax-payer, the Indian investor in rupee paper, and the Government that the investments should be made in the rupee securities of the Government of India

## Enclosure No 8

No 189, dated Karachi, the 8th June 1904

From F S Couper, Esq, Secretary, Karachi Chamber of Commerce, to the Secretary to the Government of India, Finance and Commerce Department

I have the honour to acknowledge receipt of your letter No 2632A, dated the 29th April last, requesting an expression of opinion on a proposal under consideration of the Governor-General in Council, to increase the invested portion of the Paper Currency Reserve from 10 to 12 crores of rupees,

I am directed by my Committee to express their approval of the proposed legislation by Government, as, in their opinion, the position as set forth in the Tables you attach, fully justifies such action

My Committee are also completely in accord with the suggestions (a) that the investment should be made from the *Gold* in the Reserve, and (b) in sterling securities rather than in rupee securities

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Enclosure No 9

No 931, dated Calcutta, the 9th June 1904

From W Parsons, Esq, Secretary, Bengal Chamber of Commerce, to the Secretary to the Government of India, Finance and Commerce Department

I am directed by the Committee of the Bengal Chamber of Commerce to acknowledge receipt of your letter No 2632A, dated Simla, 29th April 1904, asking for an expression of opinion on the proposal now under the consideration of the Governor-General in Council to take power by legislation to increase the invested portion of the Paper Currency Reserve from 10 to 12 crores of rupees

2 In paragraph 7 of your letter you ask for a further opinion on a proposal, also before the Government of India, to make the investment not in rupee securities but in sterling securities either of the British Government or of the Government of India

3 The Committee have given their very close and careful attention to both the points raised in your letter, and I am instructed to say with reference to the first that they are unanimously of opinion that the invested portion of the Paper Currency Reserve can be safely increased from ten to twelve crores of rupees

4 As to the second point on which an opinion is asked, viz, the advisability of making the new investment in sterling securities, the Committee are in favour of this proposal, notwithstanding that it involves a departure from long established precedent. Although the Committee would not suggest any alteration of this kind being made in connection with the ten crores already invested, they consider it would be advisable to invest the additional two crores now under consideration, in sterling securities either of the British Government or the Government of India. It appears to them that in case of need such securities would be more readily and quickly realised in London, where they would no doubt be held, than would be possible with rupee securities either in India or in England, and occasions might arise for the speedy purchase of silver, for which this investment would be available on the spot, and the time required for the transmission of gold from India would be saved

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Enclosure No 10.

No 192, dated Bombay, 9th June 1904.

From J Begbie, Esq, Secretary and Treasurer, Bank of Bombay, to the Secretary to the Government of India, Finance and Commerce Department.

I have the honour to acknowledge receipt of your letter No. 2632A, dated 29th April last, in which you request that the Directors of this Bank will favour the Government of India with an expression of their opinion on a proposal which is under the consideration of the Governor-General in Council to take power by legislation to increase the invested portion of the Paper Currency Reserve from ten to twelve crores of rupees.

In reply I am instructed to address you as follows --

2 You append to your letter statements for the purpose of showing that an increase would be justified in view of the enlarged net circulation of notes in the hands of the public, and also of the fact that the invested portion of the Reserve would then bear nearly the same percentages to the average minimum and net circulation as it did when the last investment was made. The statements include the figures for the years 1902-03 and 1903-04, which show a very exceptional inflation, and my Directors are not disposed to agree with the opinion expressed in your letter that this recent and very rapid increase may be taken as an index of a growth of the monetary transactions of the country and consequently of the minimum amount of notes which will be necessary for such transactions. So far as the figures for the past two years are concerned, my Directors think it is unsafe to place much reliance on them as indicating a permanent larger use of notes as currency. They consider that a large portion of the recent increased holding of both notes and rupees by the public is likely to be only temporary. The increased holding probably represents to a large extent unusual profits on agricultural operations and trading, money, in fact, received in exchange for produce, &c, sold, and my Directors think it is very desirable to wait and see whether it will remain in circulation as currency in the hands of the public, before acting on the conclusion that the minimum note circulation has been permanently raised. And although, apart from the statistics for those two years, the increased minimum net circulation would appear to justify the proposed investment, my Directors are of opinion that the question under consideration should not be decided on the statistical position alone.

3 In paragraph 6 of your letter you state that in 1896 some doubts were expressed as to the effect on the stability of exchange of a measure which would result in increasing the rupee circulation by two crores, and you add that at the present time the stock of gold in the currency reserve is so high that the Government of India could view with equanimity such an addition to the silver currency. My Directors regret they are unable to share the confidence thus expressed by Government. In their opinion an addition, by itself, of two crores to the silver currency would probably have no ill effect on the stability of exchange, but there is considerable risk to that stability in large frequent additions to the token circulation, and my Directors think that the present proposal should be considered in the light of the policy pursued by Government in connection with all extensions of the currency. That policy has led during recent years to a very large increase of the token coinage, and to the adoption of permanent measures to enable a rapid addition to be made to the stock of silver coin without the risk of delay in importing silver bullion for coinage (as announced in the last Budget Statement), and the leading feature of the policy seems to be that all increases of the currency must be in the form of token coins. This system differs from that followed in the more important gold standard countries, the general practice being to strictly limit the quantity of subsidiary or token coins. The result has been that far more rupees have been issued than are really wanted for actual circulation. Supplies of money have for a considerable time past been in large excess of needs. This fact was clearly displayed during the past six months by the comparatively low rates of interest and the difficulty experienced in obtaining full employment for money, while, at the same time, the trade of the country was very large and of high value. This seems to show that rupees have been over abundant, seeing that the great bulk of money in use in India consists of rupees, and that it cannot be really necessary that most of the money in use should be in the form of subsidiary coins. With the gold standard the aim should be to restrict the quantity of such coins to as low a minimum as possible. My Directors regret they cannot regard this result of the policy of Government with approval. It seems to them to be contrary to sound currency principles to continue to expand the circulation, practically without limit, only in the form of token coins. Government no doubt, have endeavoured to meet this objection, and at the same time to protect themselves, by the establishment of a Gold Reserve Fund into which the profits of coining new rupees are

paid, and the amount accumulated has been invested in sterling securities. The Fund is intended as a guarantee for the conversion into gold, if required, of the rupee token coinage. This expedient is an unusual one, and my Directors are unable to regard it with favour, especially in view of the very large quantities of rupees that have been issued and of the apparent readiness of Government to continue further coinage notwithstanding that the rupee currency is already superabundant. It seems to my Directors that the system must lead to excessive issues of rupees, and that rupees in excess of requirements will have to be withdrawn from circulation sooner or later. Such an operation as the reconversion of rupees into gold as contemplated would almost certainly be carried out under disadvantageous circumstances and a considerable loss, and the credit of the Government gold currency policy might also be endangered. The contingency of having to reconvert rupees into gold is one which should be avoided as far as possible, and, in the opinion of my Directors, it would be far better to inaugurate at once a gold currency and so limit the coinage of rupees, rather than take the risk of having to melt rupees into bullion for sale at almost certain, and probably heavy, loss, and the further risk of the Indian currency being impaired. A gold currency is the natural and usual concomitant of a gold standard, and there appears to be no good reason why the Indian gold standard should not be associated with a gold currency, which as in other countries might be extended without limitation and without risk, and which would be automatic and self-regulating. Sovereigns no doubt are legal tender and have come into the country in large quantities, but they do not circulate to any large extent as currency. My Directors believe sovereigns are of unsuitable value for the wants of the public, but they are convinced that gold coins of smaller value issued by the Indian Mints would be extensively welcome. Recent imports of sovereigns have come in in exchange for Indian produce, and my Directors are unable to approve of the system which converts such imports into rupees whether money in that medium is required or not, and practically compels the country to be content with a non-automatic currency consisting largely of overvalued silver coins.

4 In the case under reference Government could view with equanimity an addition of two crores to the silver currency because of the stock of gold held in the Currency Reserve. That stock of gold is no doubt a most important factor in the situation. But it has to be remembered that that gold is required as a guarantee for the maintenance of the gold standard, and that in other large gold standard countries where token coins in circulation are in large quantity much larger stocks of gold are held (in addition to gold coins in the circulation), than the amount now held in India, and those countries also refrain from adding to the strain on the standard by increasing the quantity of token coins in use. In India the additions to the circulation have increased the burden thrown on the stock of gold of maintaining the standard, and, although no adverse effect on the stability of exchange has so far manifested itself from the late additions, my Directors are of opinion that this result has arisen not so much from the possession of the gold, on which Government place so much reliance, as from the favourable trade balances. With a continuance of favourable balances it is probable no bad effect will appear because of the swollen state of the rupee currency. But there can be no certainty that those balances will always be favourable, and my Directors consider it would be wise to await developments before acting on the conclusion that the gold held is strong enough to maintain stability of exchange, especially as the inflation of the circulation is an event of comparatively recent occurrence. The adverse action of an inflated token currency need not be immediate. It may exert its force at any time. Besides maintaining the standard, the stock of gold in the Currency Department is practically the only store available in the event of gold being wanted to adjust the balance of trade should it unfortunately turn against India, and calls on it for that purpose should be kept in view however remote they may appear at the present time.

5 My Directors' view of the present state of the rupee circulation being as above indicated, they regret they are unable to approve of the release of



two crores of rupees from the Currency Reserve which would be the result of the proposed investment if made from the silver reserve

6 With respect to the alternative of investing from the gold reserve, I have to say that, while my Directors would, under existing circumstances, prefer a gold investment rather than one from the rupee reserve, they are of opinion that in this case also no action should be taken for the present. They consider that this is not the time to invest either from the silver or the gold reserve, and that it would be better to wait and watch the results which may ensue from the large additions to the rupee circulation. A reduction in the gold metal reserve by two crores might perhaps be regarded without much concern, seeing that the balance of trade is very favourable and that gold is still being imported. My Directors think, however, that the position would be far stronger by possession of the metal itself rather than of gold securities. The metal is the best and most satisfactory basis for the currency. The Gold Reserve Fund has, unfortunately, in the opinion of my Directors, been already invested. They would much prefer to see the gold itself retained in the country. And, in any case, the money can be invested at any time if further experience shows that it can be spared. A comparatively small loss in the way of interest is the only disadvantage.

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✓Despatch from the Secretary of State to Government of India, No 141 (Financial), dated 14th October 1904

My Lord,

I have considered in Council Your Excellency's letter in the Finance and Commerce Department, No 295, dated 18th August 1904, submitting for my approval proposals that (1) the invested portion of the Paper Currency Reserve may be increased from 10 to 12 crores of rupees, and (2) that the additional amount thus to be invested may be held in London in gold securities of the Government of India or of the United Kingdom

2 I agree with your Government that the expansion of the note circulation which has taken place since 1896, when the present limit was fixed to the invested portion of the Paper Currency Reserve, has been sufficient to warrant the raising of that limit from 10 to 12 crores, and it also appears to me that the policy of investing in gold securities the sum which you propose to add to the invested portion of the Reserve is a sound one

3 I therefore authorise you to undertake the legislation necessary to give effect to your proposals

I have, &c  
(Signed) ST JOHN BRODRICK

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Letter from Government of India No 6, dated 12th January 1911, to the Secretary of State for India

My Lord,

We have the honour to submit, for your favourable consideration, a proposal to amend Section 22 of the Indian Paper Currency Act, 1910 (II of 1910), so as to raise from one hundred and twenty to one hundred and forty millions of rupees, the amount of the Paper Currency Reserve which may be invested in securities and to raise from twenty to forty millions of rupees, the maximum which can be invested otherwise than in securities of the Government of India

2 The maximum limit of the invested reserve was raised in 1905 from 10 to 12 crores. Since that time the net circulation of currency notes in India (excluding the amounts held in the Reserve Treasuries of Government and at the head offices of Presidency Banks), which is taken as an index to the permanent circulation among the public, has largely increased. The statements appended to this despatch give the statistics of gross and net circulation for the six years ending 1909-10. The average and minimum net circulation in the past three years compare as follows with the corresponding figures in the three years preceding the last increase of the invested reserve in 1905 (*lakhs of Rupees*) —

Three years ending 1904-05			Three years ending 1909-10		
	Average	Minimum		Average	Minimum
1902-03	25,74	23,93	1907-08	36,47	34,91
1903-04	28,70	27,44	1908-09	34,84	32,88
1904-05	30,69	29,63	1909-10	38,88	36,07
Average	28,38	27,00	Average	36,73	34,62

3 It will be seen that, while the sum of 12 crores to which the investment was raised in 1905 amounted to 42.28 per cent of the previous three years' average circulation and to 44.44 per cent of the average minimum circulation, a further increase to 14 crores now would put the investment at 38.11 per cent of the average circulation of 1907-10 and at 40.44 per cent of the average minimum circulation. The latter triennium, as your Lordship is aware, included one year (1908-09) which was marked by serious trade depression. We regard it as extremely unlikely that the minimum circulation will ever fall, at least for any prolonged period, below 30 crores, and if against this we hold 16 crores in actual coin, the danger of inconvertibility will be very small. We are confident therefore that the proposed increase to the investment is within the margin of safety.

4 The proposal which we now submit first came under consideration in 1908, when we consulted the Presidency Banks and the Chambers of Commerce on the subject. We enclose a copy of their replies. It will be seen that, while they were unanimously of opinion that the investment could safely be increased to the extent proposed, there was a considerable feeling that it would be preferable to postpone the investment in favour of taking steps to promote the circulation of small value notes. We were then on the point of recommending an extension of the system of universal currency notes, and it was apprehended that the experiment would require the retention of a somewhat larger coin reserve than might otherwise be necessary. Another consideration which affected the proposal in 1908 was the weakness of exchange, which would have rendered inopportune any action tending towards further ease in the money market by the release of a large quantity of rupees from the Currency Reserve. We, therefore, came to the conclusion that it was inadvisable to proceed with the proposal at the time.

5 Since then the position has altered. The weakness of exchange has passed, while the circulation of currency notes during 1909-10 was the highest on record. Our currency notes up to Rs 50 have been "universalized," and we have had no experience of the inconveniences which it was feared might result. It is true that prudence may require us to hold a stronger coin reserve at a number of distant points than was necessary under the old rigid "circle" system. But, on the other hand, the greater convertibility tends to raise the aggregate circulation and to reduce the violent fluctuations at different times of the year. In our opinion the extension of the universal note system need no longer be considered a reason for deferring the increase in our investment if such a measure is otherwise desirable. An objection sometimes urged against increasing the investment is that, in order to supplement the Gold Standard Reserve, it is desirable to keep as large a quantity of gold in the Paper Currency Reserve as possible, and that every investment, by reducing the capacity of the Reserve for holding gold, reduces at the same time our resources for the maintenance of exchange in unfavourable seasons. This argument might be pushed so far as to preclude

the possibility of any investment at all, and it is deprived of much of its force if the investment is made in securities which are readily convertible into gold

6 This leads us to consider the form which the investment should take. When the invested reserve was last increased by two crores in 1905, the additional investment was made in sterling securities in England. The three Presidency Banks and the Chambers of Commerce, Bombay, Madras and Karachi, now advise investment in rupee paper, while the Rangoon, Bengal, and Upper India Chambers of Commerce are in favour of sterling securities. In our opinion the arguments in favour of the investment in sterling securities set forth in paragraphs 7, 8, and 9 of Lord Amphill's despatch No 295, dated the 18th August 1904, still hold good. We already have a sufficiently large holding in rupee paper, and there is an advantage in keeping a substantial part of the Reserve in a form of security which will not necessarily be influenced by the causes which might shake public confidence in our currency notes.

7 We therefore solicit your Lordship's permission (by telegram, if possible) to introduce a Bill during the present Calcutta session to give effect to the proposals stated in the first paragraph of this despatch, on the understanding that, if the Bill becomes law, the additional investment will be made, under your orders, in gold securities.

We have the honour to be,

My Lord,

Your Lordship's most obedient, humble Servants,

(Signed) HARDINGE OF PENSURSI  
O'M CREACH.  
G FLEETWOOD WILSON  
J L JENKINS  
R W CARLYLE  
S H BUTLER  
S A IMAM

Government of India (Finance Department)

Enclosures of Despatch No 6 of 1911

Enclosure No 1

No 1—Statement showing the circulation of Paper Currency for all India.  
(In lakhs of Rupees)

Month	1904-05	1905-06	1906-07	1907-08	1908-09	1909-10
April	36,11	39,78	43,76	46,22	46,26	43,65
May	37,26	40,19	42,89	46,07	44,81	46,77
June	40,65	41,36	45,56	48,05	45,15	49,29
July	42,52	41,58	47,30	50,32	48,10	51,53
August	41,35	43,79	45,70	51,77	44,61	51,74
September	39,96	42,73	44,40	52,74	43,84	50,82
October	39,45	41,58	45,22	50,65	44,25	50,50
November	39,80	39,63	44,13	47,43	43,55	46,53
December	38,79	39,77	45,61	43,27	42,07	48,25
January	37,62	40,49	44,65	41,82	42,21	51,84
February	37,73	42,63	45,49	42,66	43,86	50,57
March	39,17	44,66	46,95	46,88	45,49	54,41
Average	39,20	41,52	45,14	47,32	44,52	49,66
Maximum	42,52	44,66	47,30	52,74	48,10	54,41
Minimum	36,11	39,63	42,89	41,82	42,07	43,65

## Enclosure No 2

No II—Statement showing the circulation of Paper Currency, excluding amounts held by the Government Reserve Treasuries and by the Presidency Banks at their Head Offices (*In lakhs of Rupees*)

Month.	1904-05	1905-06	1906-07	1907-08	1908-09	1909-10
April - - -	29,64	31,06	34,74	38,14	34,58	37,30
May - - -	29,63	31,92	33,08	37,44	33,10	36,09
June - - -	30,61	31,96	33,12	37,15	32,88	36,07
July - - -	31,21	32,70	34,19	36,64	33,46	36,30
August - - -	30,84	31,09	34,13	36,14	33,40	37,06
September - - -	30,47	32 13	35 21	37,28	34,62	38,69
October - - -	30,09	33,24	36,30	36,94	35,77	38,80
November - - -	30,13	32,68	37,12	36,49	35,96	38,47
December - - -	31,82	33,36	38,12	35,69	35,79	40,05
January - - -	31,38	33,84	37,91	35,17	35,44	42,50
February - - -	31,39	34,63	38,28	35,69	36,24	42,66
March - - -	31,03	35,35	38,89	34,91	36,85	42,57
Average - - -	30,69	32,83	35,92	36,47	34,84	38,88
Maximum - - -	31,82	35,35	38,89	38,14	36,85	42,66
Minimum - - -	29,63	31,06	33,08	34,91	32,88	36,07

## Enclosure No 3

Dated 26th November 1908

From Mr L G Dunbar, Officiating Secretary and Treasurer, Bank of Bengal, to the Secretary to the Government of India, Finance Department

I have the honour to acknowledge receipt of your letter, No 6404A, dated the 11th instant, asking for an expression of the opinion of the Directors of the Bank of Bengal whether it is expedient that the Government of India should take power to increase the invested portion of the Paper Currency Reserve from twelve crores to fourteen crores of rupees

2 In reply, I am instructed to say that, as the stock of coined rupees appears to be ample to meet all probable requirements, my Directors are of opinion that the proposed increase in the Currency investment may be undertaken with safety and to the advantage of the State

3. As regards the form of the new investment, my Directors consider the sum of Rs 2 crores, at present invested in sterling securities, sufficient for the purpose for which it is intended, and that the further investment, now under consideration, should be in the rupee paper of the Government of India

## Enclosure No 4

No 338, dated 4th December 1908

From Mr J Begbie, Secretary and Treasurer, Bank of Bombay, to the Secretary to the Government of India, Finance Department

I have the honour to acknowledge receipt of your letter No. 6404A, dated 11th ultimo, in which you request that the Directors of the Bank will favour the Government of India with an expression of their opinion whether it is expedient that the Government of India should take power by legislation to increase the invested portion of the Paper Currency Reserve from twelve to fourteen crores.

2 In reply the Directors instruct me to say that the statistics of the net circulation of notes which accompanied your letter show a large and rapid decline during the twelve months ending 31st March last, and that it would appear to be advisable to see whether this decline continued during subsequent months, and if so, how far the decline was carried, before concluding that the average minimum circulation had permanently reached the level shown as the average for the three years ending March last. Subject to this note of caution the Directors consider that the statistics warrant the addition to the invested portion of the reserve now suggested.

3 With regard to the question whether the investment should be made in rupee or sterling securities, the Directors are of opinion that in the existing position of sterling exchange the investment should be made in securities of the Government of India.

4 While agreeing that the statistical position shown in your letter would justify the further investment of the Reserve now proposed, the Directors venture to suggest for the consideration of the Government of India the desirability of postponing the investment and taking instead further steps in the direction of promoting an extended use of notes of small value as currency.

5 They have specially in view at present the desirability of encouraging the extended use of Rs 10 notes. It is through notes of low value that the greatest employment for notes as currency can be found amongst the population, and it is also through such notes that the greatest stability to the permanent circulation can be obtained. It appears to the Directors that Government should endeavour to promote their circulation by relaxing as many of the restrictions now placed upon them as may be found possible.

6 In every Currency Circle Rs 10 notes have proved to be the most popular of all the denominations issued, showing that the value of Rs 10 is most suitable for the requirements of the population, and this popularity has been attained without any special inducement being held out to encourage their employment. But while the notes are in greater favour throughout India than any other note, it can be said only of the notes of the Calcutta and Bombay Circles that they have thoroughly established themselves as currency, because it is only in these two centres that their permanent circulation is of large dimensions.

7 It would not be feasible to make all Rs 10 notes legal tender and encashable throughout India, but where they have come into continuous use in large quantities as in Calcutta and Bombay, it should be possible to encourage still further development.

8 The suggestion the Directors desire to make is that Rs 10 notes of the Calcutta and Bombay Circles should be made legal tender and encashable at the pleasure of holders in either city. Were this done the greater usefulness of the notes as a circulating medium would naturally lead to a permanent increase in their circulation.

9 But if the notes are made legal tender they should also be encashable at will. With regard to this point I have to say that the Directors believe the variation in the total circulation of Rs 10 notes in Calcutta and Bombay throughout the year is very small and that a comparatively minute cash reserve is sufficient to meet all demands for payment in coin. Also, it may safely be assumed that very few of the existing Rs 10 notes outstanding at Calcutta would be presented for encashment in Bombay and *vice versa*, because they are in use in the locality of the circle of issue. For all practical purposes it would only be from any additional notes issued, that a new liability would be created on the cash reserves in each city, against which it would be advisable, to begin with, for the Currency Office at each place to be prepared for demands for encashment of notes of the other circle. The

Directors understand however that the chief flow of money from Bombay to Calcutta takes place from about August until January and that the current is reversed after January. The additional liability that would be thrown on each Currency Office would therefore be confined to well defined seasons of the year. The Directors further understand that Government already provide for the cash requirements of Calcutta by remittance of coin in anticipation of the autumn demands and similarly provide for Bombay's coin requirements when the demand arises here. But the total of such coin requirements at each place would not be increased by reason of Rs 10 notes being made encashable in either city. The total amount of remittances from Bombay to Calcutta and *vice versa* would not thereby be enhanced. A larger part of the money transferred might perhaps be made in the form of Rs 10 notes than is now the case, but the total demands for coin arising out of transfers of money from one city to the other would remain unaffected. It would however be safer, to start with, to hold rather larger cash balances until experience was acquired of the working of the scheme. On the other hand, in view of the popularity of the notes at each centre the probability is that they would gradually cease to be presented for cash and be increasingly absorbed as currency in circulation. The knowledge that they were legal tender and also exchangeable for coin at the pleasure of the holder in either city would bring about the usual result of making the notes still more popular and making them do duty where coin is now required.

10 The Directors consider it would be sound policy to sacrifice the income from an immediate investment to secure the use of notes of small value as currency to a greater extent than is now the case. When that is secured the amount of the Reserve that can safely be invested will be so much the greater.

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Enclosure No 5

No. 1306, dated 9th December 1908

From the Chairman, Chamber of Commerce, Bombay, to the Secretary to the Government of India, Finance Department

I am directed to acknowledge receipt of your Circular letter, No 6404A, dated Simla, 11th November 1908, requesting the Chamber to favour the Government of India with an expression of its opinion as to whether the Supreme Government should take power by legislation to increase the invested portion of the Paper Currency Reserve from twelve to fourteen crores.

2 In reply I am to state that in the opinion of the Committee this forms part of a far larger question and my Committee beg to lay the following remarks before you for the consideration of the Government of India.

3 As far back as 1868 the question of making notes of all Circles legal tender throughout India was brought forward, but at that time this Chamber, when asked its opinion by Bombay Government, advocated a Presidency Note in lieu of a universal note for all India, its reasons being that while the latter would be most acceptable, the time had not then come for adopting it.

4 In 1900 this Chamber, in response to questions asked by the Government of India, stated *inter alia* that if Government could undertake to cash the notes of any Circle at Calcutta, Madras, or Bombay, it would afford considerable facility to trade and would tend to popularise the use of notes.

5 This matter has now again been brought to the notice of my Committee and it has been pointed out that the fact of one Circle's notes not being legal tender in another Circle constitutes considerable hardship to trade. In Bombay, for instance, many traders come down to make purchases and bring for that purpose notes of another Circle. The result of this is that native

dealers present these notes to European firms, but, as they cannot be cashed in Bombay except at a discount, the firms are unable to accept them, and this constitutes constant friction between themselves and their dealers. My Committee are therefore of opinion that if notes of all Circles could be made legal tender at the three Presidency towns, Calcutta, Madras, and Bombay, it would considerably facilitate trade between the Presidencies, and take away the difficulty referred to above. They quite realise that by so doing Government would probably lose a certain profit which they now make by transfers from one Centre to another, as, provided the notes were made legal tender for the three Presidency towns, the actual transfer of bullion which might be required to meet trade requirements would be made at the expense of Government and not at that of the merchants. But they consider that Government would be fully repaid indirectly by the increase in trade consequent on such facilities being granted and the increased confidence in and consequent use of currency notes instead of bullion.

6 My Committee understand that at present considerable balances are retained in up-country treasuries, which balances might safely be reduced and increased amounts retained in the three Presidency Towns, which would probably be sufficient to meet the increased demands which might be made upon them if my Committee's proposal regarding all notes being made legal tender in the said chief towns should be carried into effect.

7 It will be understood therefore that, holding these views, my Committee are not in favour of an increase in the invested portion of the Paper Currency Reserve, but would prefer to see increased facilities given to the public by making all notes legal tender in the three Presidency Towns. If this is done they consider it will be inadvisable to reduce the available balances by increasing the investment as suggested. Should, however, Government be unable to see their way to adopt the above suggestion, I am directed to state that my Committee agree that the invested portion of the Paper Currency Reserve might safely be increased as suggested, and as regards the nature of the investment to be selected they are of opinion that it is not desirable to make further investments in sterling securities but to invest the same in Rupee  $3\frac{1}{2}$  per cent Paper

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Enclosure No 6

Dated 8th December 1908

From the Chairman, Burma Chamber of Commerce, Rangoon, to the Secretary to the Government of India, Finance Department

I have the honour to acknowledge receipt of your letter, No 6404A, dated 11th November 1908, regarding the expediency of the Government of India taking the power by legislation to increase the invested portion of the Paper Currency from twelve to fourteen crores

2 I have the honour to inform you that while my Committee are of the opinion that not more than one-third of the reserve held against the currency note circulation should be invested in Government securities they do not see much objection to the small increase in the percentage which it is proposed to make, but hope it will not be further augmented in the future

3 If the proposed increase is determined upon, my Committee recommend that the further investment should be made in British Government securities, they being more readily realizable, in case of need, for purchases of silver

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## Enclosure No. 7.

No G P L 131, dated 15th December 1908

From the Secretary and Treasurer, Bank of Madras, to the Secretary to the Government of India, Finance Department

I have the honour to acknowledge receipt of your letter, No 6404 A, dated the 11th November, requesting my Directors to express their opinion as to whether it is expedient that the Government of India should take power to increase the invested portion of the Paper Currency Reserve from twelve to fourteen crores, and in reply I am directed to say that my Directors are of opinion that, in view of the large increase in the circulation of currency notes, the proposed increase in the invested portion of the Reserve may be made with safety

2 I am further desired to say that my Directors consider that, in order to avoid frequent amendments of the Indian Paper Currency Act, Government might take powers by legislation to invest a fixed proportion of the value of notes in circulation. In his letter No 6468, dated 23rd December 1889, Mr Finlay stated that in 1860 it was proposed to invest two-thirds, but that it was decided that the safer and sounder principle was to prescribe a fixed sum as the limit. What the reasons were for arriving at this decision are not stated, and though the investment of two-thirds of the Reserve might involve considerable risk, my Directors submit that, under present conditions, 35 per cent might safely be invested. They think also that, should some such proportion be decided upon, it would be necessary, while leaving the permissive power to sell securities untouched, to add a sub-clause to Section 22 of the Act making it obligatory to sell should at any time the metallic reserve fall below a certain percentage of the notes in circulation—say 50 per cent

3 In your letter under reply my Directors are also asked whether they have any suggestions to make, if a further investment is determined upon, as to what form it should take, and in this connection I am desired to say, that unless the operation be postponed for a very considerable time, it would not appear to be possible to invest in securities of the United Kingdom without interfering with the building up of the Gold Standard Reserve Fund to its former level, and that therefore the present investment may be made in Government of India rupee paper

## Enclosure No 8

No 885, dated 16th December 1908

From the Secretary, Chamber of Commerce, Karachi, to the Secretary to the Government of India, Finance Department

I beg to acknowledge your letter No 6404A, of 11th November, regarding the proposal to increase the Paper Currency Reserve from twelve to fourteen crores of rupees. I am directed by the Committee of this Chamber to inform you that they are of opinion that the Reserve might be increased as suggested providing that the same is made in securities of the Government of India

## Enclosure No 9

No 1977, dated 23rd December 1908

From the Secretary, Bengal Chamber of Commerce, to the Secretary to the Government of India, Finance Department

I am directed to acknowledge the receipt of your letter, No 6404A, dated 11th November 1908, in which you request an expression of opinion



by the Bengal Chamber of Commerce as to whether it is expedient to increase the invested portion of the Paper Currency Reserve from twelve to fourteen crores of rupees

2 In reply I am to say that the Committee of the Chamber have attentively examined this proposal. They have read the past correspondence dealing with the increases which have been made since the limit of the invested portion of the Reserve was fixed, by the Paper Currency Act of 1861, at four crores of rupees. And they endorse the principle upon which the investments have been made, namely, that the sum invested shall be well within the amount of notes which has been found by experience to be necessary for the monetary transactions of the country. When the limit was raised in 1905, the sum of twelve crores of rupees amounted to 42.28 per cent on the average net circulation (*i.e.*, the gross circulation less the amount held in the Government Reserve Treasuries and at the head offices of the Presidency Banks), and to 44.40 per cent on the average minimum circulation. The Committee of the Chamber were then of opinion that this was a sufficient

*Letter No 931, dated 9th June 1904, from the Bengal Chamber of Commerce, to the Government of India, Finance and Commerce Department*

margin of safety, and they consequently supported the suggested increase. They similarly favour the present proposal, which if adopted will, they understand, bring the investment up to 39.92 per cent on the average of the net circulation for the last three years, and to 42.40 per cent on the average minimum.

3 In reply to your enquiry as to the form which the investment should take, I am likewise to refer to the views expressed by the Chamber when the last increase was under discussion. The Committee then recommended that the investment should be made in sterling securities because such would be, they considered, more readily realised in London than rupee securities would be either in India or in England. They are still of this opinion, and they venture therefore again to suggest that sterling securities should be purchased. At the same time they are aware that the stock of gold coin and bullion in the Currency Reserve has now been so far depleted as not to

*\* Gazette of India, 19th December 1908, Part II, page 1848*

exceed two\* and a quarter crores of rupees in England, and about Rs 15½ lakhs in India. This being the case, immediate investment in sterling securities may not be feasible, but nevertheless the Committee think that the principle should not be departed from. They presume that, as on previous occasions, the intention is to invest gradually, and even though their recommendation may mean delay, they do not hesitate to put it forward. For the investment in rupee securities should not be, they think, enlarged at present beyond the ten crores of rupees at which it stands, and which is a full amount in comparison with the two crores invested in sterling securities.

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Enclosure No. 10

Dated 30th December 1908

From the Chairman, Chamber of Commerce, Madras, to the Secretary to the Government of India, Finance Department

I have the honour to inform you in reply to your letter, No 6404A, dated the 11th November 1908, that the Chamber considers that, in view of the large increase in the circulation of Currency notes since 1905, the Government of India might safely increase the invested portion of the Paper Currency Reserve from Rs 12 to 14 crores, when a suitable opportunity presents itself, and the investment should, at present at all events, be in Government of India rupee paper.

2 In this connection the Chamber would suggest for consideration the desirability of the Government of India taking power by legislation to invest

a fixed proportion of the Currency notes in circulation in order to obviate the necessity of frequent revisions of the Paper Currency Act. The Chamber would suggest 35 per cent as a reasonable and safe proportion to invest, provided that, while the power to sell securities is not interfered with, Section 22 of the Act is amended by the addition of a sub-clause rendering a sale obligatory if and when the metallic reserve touches a point below, say, 50 per cent of the notes in circulation.

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Enclosure No 11

Dated 15th March 1909

From A Shakespear, Esq, Secretary, Upper India Chamber of Commerce,  
to the Secretary to the Government of India, Finance Department

I am directed to acknowledge receipt of your letter No 6401A, of the 11th November last, in which you invite the views of this Chamber upon a proposal to increase the invested portion of the Paper Currency Reserve from 12 crores to 14 crores

2 My Committee have studied the history of the Paper Currency Reserve, and they are of opinion that the proportion held in the form of securities might with safety be increased to 14 crores, having regard to the expansion which has taken place since 1905 in the amount of Currency notes actually in use by the public

3 Concerning the question of the form in which investments should be made, my Committee have come to the conclusion that sterling securities should be selected, on the ground that generally speaking they are more realisable than rupee securities. In making this recommendation they have not overlooked the benefit to the market value of rupee securities which might reasonably be expected to follow further investments by Government. At the same time they are conscious of the depressing effect which would result from Government being obliged in times of emergency to realise on its holdings

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Telegram from Secretary of State to Viceroy, Finance Department,  
14th February 1911.

Your Despatch dated 12th January, No 6 Indian Paper Currency Act  
I approve amendment proposed and sterling investment

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## NOTE III

(See paragraph 22 of Memorandum, page 242)

Remittance of 5,000,000*l* in gold from India to be held in England as part of the Paper Currency Reserve Correspondence in 1905 between Secretary of State and Government of India

Despatch to Government of India, No 41 (Financial), dated 7th April 1905

My Lord,

In my telegram dated 9th March last, while accepting your proposal that the remittance of two crores of rupees to this country which will be required for the investment on account of the Paper Currency Reserve shall be made by means of Council drawings, I added that I should address you further on the subject of remittances of gold

2 The question of the amount of gold that can be conveniently held in the Paper Currency Reserve in India was discussed by Your Excellency in your letters of 14th December 1899 (No 421), and 6th September 1900 (No 302) In the latter communication it was suggested that 7,000,000*l* should be regarded as the maximum, and this proposal was provisionally accepted in Lord George Hamilton's Despatch No 232, of 13th December 1900 The question was again considered by you last year in connection with your proposal to increase the amount invested on behalf of the Paper Currency Reserve, and in your letter of 18th August last, No 295, you stated that in your opinion a stock of gold of the value of 9½ crores (6,167,000*l*) in the reserve would be ample and that a larger proportion is not at present required in India You also stated that you have found by experience that at the beginning of the busy season the proportion of silver coin in the Currency Reserve should be approximately one-third of the total note circulation As the gold held in the reserve has not fallen below 9,000,000*l* during the last two years, and has during the whole period since March 1904 exceeded 10,000,000*l*, I assumed, when agreeing that the invested portion of the reserve shall be increased by the substitution of sterling securities for two crores of the metallic portion, that it was your intention to remit gold to England for the purchase of the securities In deference to the representations made in your telegram of 8th March 1905, I have agreed that the remittance shall be made by means of Council Bills But I should be glad if you would consider whether the amount of gold held in India should not nevertheless be reduced

3 According to the statement for the 9th of March 1905, which is the latest before me, the composition of the Currency Reserve on that date was as follows —

	Crores
Securities	10
Silver coin	9 07
Silver bullion	1 88
Gold	16 47
Total	<u>37 42</u>

The amount of silver coin was considerably below the proportion of one-third mentioned above, and when an investment of two crores is made in England, and the metallic reserve in India is reduced, the reduction will presumably be effected wholly or in part by the transfer of rupees to the ordinary treasuries

4 In view of these figures it appears to me that there would be some advantage in remitting gold to England early in the present financial year

Having regard to the state of your balances as described in your telegram of 8th March, it would perhaps be the more convenient course that gold so remitted should in the first instance be held as a part of the Paper Currency Reserve at the Bank of England. It could be used, if a favourable opportunity occurs in the near future, for the purchase of silver in anticipation of future requirements, or, if you are unwilling at present to anticipate requirements, it could be held at the Bank so as to be immediately available for the purchase of silver whenever the need for additional coinage may arise. It is also to be remembered that the possession of a stock of gold in England, held as a portion of the Paper Currency Reserve, but capable of being transferred to the ordinary balances of the Secretary of State in Council, against a corresponding transfer of rupees from your balances to the Currency Reserve in India, affords a method (which might in certain circumstances be very useful), of speedily replenishing the balances of the Secretary of State in Council

5 I shall be glad to receive an expression of your views on the points discussed in this Despatch

I have the honour to be,  
My Lord,  
Your Lordship's most obedient humble Servant,  
(Signed) ST JOHN BRODRICK

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Letter from Government of India, No 236 of 1905 (Finance Department), dated 29th June 1905, to the Right Honourable St John Brodrick, His Majesty's Secretary of State for India

Sir,

We have the honour to refer to your Financial Despatch No 41, dated the 7th April 1905, on the subject of the amount of gold held in the Paper Currency Reserve. You cite various opinions which the Government of India have expressed at different times as to the amounts of gold and silver respectively which should be held in the Reserve, and you ask us to consider whether in view of the large stock of gold now held in India, a portion of it should not be remitted to England. You also suggest that it might be convenient to hold the gold so remitted in the first instance as a part of the Paper Currency Reserve at the Bank of England, and you point out certain advantages which would attach to the possession of such a stock of gold in England

2 In the previous discussions to which you refer concerning the amount of gold that can conveniently be held in the Reserve, our views were influenced by the sudden demands which had arisen for the provision of rupees in India, and by anxiety lest the presence of a large stock of gold should hamper us in meeting those demands. Our position in this respect has been greatly strengthened by the large increase that has taken place in the note circulation in the last few years, and by the formation of a special ingot reserve of three crores of tolas of silver, as proposed in our Despatch

No 121, dated 28th April 1904 The position will, we think, be made still more secure if you accept the proposal put forward in our Despatch No 143 of the 27th of April last, for the annual purchase of silver in anticipation of actual requirements

3 The object of this proposal was to secure a sufficient supply of rupees to meet all urgent demands, and so long as this object is effected we see no cause for anxiety in the accumulation of a large stock of gold On the contrary we consider that the balance of the uninvested portion of the Reserve which is not likely to be required for circulation as money ought to be held in gold rather than in silver, and that the possession of a large stock of the yellow metal will strengthen our credit and contribute to the stability of exchange Subject, therefore, to the provision of sufficient rupees and reserves of silver, we would allow our stock of gold to grow indefinitely with the expansion of the note circulation until such time as it may be deemed expedient to make a further addition to the invested portion of the Reserve.

4 We do not, however, consider it in any way necessary that the whole of the gold should be held in India As pointed out in the second paragraph of your Despatch under reply we expressed the opinion in August last that a stock of 9½ crores in the Reserve furnishes, under present circumstances, an ample maximum for Indian purposes, and one of the objects of the recent revision of the Paper Currency Act was to facilitate the transfer of the gold portion of the Reserve between India and England We would in this connection invite attention to the remarks made by our Honourable Financial Colleague when moving on the 11th of March last that the Report of the Select Committee on the amending Bill should be taken into consideration The Honourable Mr Baker then observed that "so far as gold is concerned, the coin held in London is actually one stage nearer the point at which it becomes effective for securing the encashment of notes than when it is in India."

5 We are accordingly disposed to welcome your suggestion that a portion of our stock of gold should be remitted to London and held as a part of the Paper Currency Reserve at the Bank of England To the advantages which you have enumerated as attending this measure we would add that it will enable you to make purchases of silver quietly without giving the forewarning to the market which is entailed by the present system of making separate remittances for each purchase

6 We therefore propose to send 5,000,000L (five million pounds) in gold to London to be held by you as a part of the Currency Reserve When you draw on this fund for the purpose of purchasing of silver, we would ask you to replenish it from time to time by the sale of Council Bills, at your convenience, and to inform us on each occasion of any intended operation on the fund, so that we can adapt our arrangements accordingly In the event of the demand for Council Bills being slack at any time, you would be able after warning us to replenish the Reserve in India, to utilise your stock of currency gold for Treasury payments If this proposal meets with your approval we should be glad to be informed as soon as possible in order that early arrangements may be made for shipping the gold

7 With reference to the remarks in paragraph 3 of your Despatch regarding the amount of silver coin held in the Paper Currency Reserve in March last, we would point out that the standard of one-third of the total note circulation referred to in our Despatch of the 18th of August 1904 was suggested as sufficient at the opening of the busy season, and that that season was drawing to its close on the 9th of March We take this opportunity of explaining that the standard which we suggested last year on Sir Edward Law's advice was a rough estimate only, and that we do not at present consider that we have sufficient data or experience for laying down any arithmetical criterion We attach more importance to the proposals stated in our Despatch of the 27th of April last for anticipating requirements than to the maintenance of any fixed proportion of rupees to

the note circulation; and in any event, we do not consider that the gross circulation, which includes notes held in the Reserve Treasuries, could in any circumstances be treated as the basis of such a criterion

We have the honour to be,

Sir,

Your most obedient, humble Servants,

(Signed) CURZON.  
 " KITCHENER  
 " E R. ELLES  
 " A. T. ARUNDEL  
 " H. E. RICHARDS.  
 " J. P. HEWETT.  
 " E. N. BAKER  
 " C. L. TUPPER.

Despatch to Government of India, No 91 (Financial), dated  
 11th August 1905

My Lord,

In your letter of the 29th of June, No 236, you accept the suggestion made in my Despatch of 7th April, No 41, that a portion of your stock of gold should be sent to this country to be held as a part of the Paper Currency Reserve, and you propose to make early arrangements for the shipment of 5,000,000*l*. I understand that you desire that the 1,000,000*l* shipped on the 8th of July, as reported in your telegram of the 6th July, may be regarded as a portion of this 5,000,000*l*.

2 I approve the proposal that a further 4,000,000*l* shall be sent. It should be consigned in instalments of not more than 1,000,000*l*, and you should inform me by telegraph when each consignment is about to be made.

3 When the gold held in England is drawn upon for the purchase of silver it is possible that in some cases the most convenient arrangement for keeping the total Currency Reserve up to the required amount will be that contemplated in Sections 17 and 19 of Act III of 1905, viz, to treat the silver purchased as a portion of the reserve. The stock of gold in England can subsequently be replenished, as you propose, from the proceeds of Council Bills (if the state of the Home Treasury balances admits of this) so as to release rupees from the Currency Reserve in India. This procedure would obviate the necessity for making transfers in India from the Treasury to the Paper Currency Department at the time of the purchase of the silver, which I understand to be the course suggested in the sixth paragraph of your letter.

4. For the present, however, the silver that is being purchased in accordance with the requests contained in your telegram of the 5th April, your letter of the 27th April, and your telegram of the 30th June, is being paid for from the balances of the Home Treasury, so that the whole 5,000,000*l* of gold will be held from the time of its arrival as a part of the Paper Currency Reserve.

5 I forward a copy of a letter to the Bank of England requesting them to take the necessary measures.

6 I also forward a copy of a note by the Deputy Accountant-General at this Office, from which it will be seen that it is desirable that you should announce (in the manner that appears to you most convenient) that the shipments are to be made on behalf of the Paper Currency Reserve, and not for the purpose of replenishing the balances of the Secretary of State for India in Council.

I have the honour to be,

My Lord,

Your Lordship's most obedient humble Servant,

(Signed) St. JOHN BRODRICK.

## Enclosure No 1

India Office to Bank of England

F 5156  
Gentlemen,India Office,  
28th July 1905

I am directed to inform you that the Government of India intend to consign to this country during the present year 4,000,000*l* in gold in addition to the 1,000,000*l* referred to in the correspondence ending with Mr Nairne's letter of the 7th July

The whole 5,000,000*l* will for the present be treated under the arrangements contemplated in the Indian Paper Currency Act, 1905, (of which a copy is enclosed for your information) as being a part of the reserve to secure the payment of currency notes issued in India

I am to enquire whether you will be so good as to hold the gold on behalf of the Secretary of State in Council on a separate account distinct from his cash and drawing accounts

Portions of the amount so held may from time to time be used for the purchase of silver or for other purposes, and in this event a transfer to the Secretary of State's cash account will be required, and the necessary instructions will be given by this Office

The Governor and Company of the  
Bank of England

I have, &c,  
(Sd) A GODLEY

## Enclosure No 2

Note by the Deputy Accountant-General, India Office, dated  
22nd July 1905

I have to suggest, for consideration, that in view of the magnitude of the operation it might be desirable to take some steps to acquaint the market that the gold to be shipped will not be available for the purposes of loans from the Secretary of State's balances. The Broker has recently mentioned to me on several occasions that the publication by the newspapers of the intended shipment of gold, which is usually announced by the news agencies directly the freight is arranged in India, has a distinct effect on the rates he is able to obtain for our loans. The firms on the borrowing list occasionally quote the information to him, and either decline to renew in the expectation of cheaper money and supply themselves instead from other sources with weekly or other short term loans, or else make the news the pretext for offering a lower rate of interest than would otherwise be obtained. In this case the shipments of gold will be large, and will perhaps spread over some time. I see from to-day's "Times" that a rumour as to a further shipment is already afloat

(Sd) H W BADOCK

## APPENDIX IX

FIGURES OF TRADE BETWEEN INDIA AND CHINA (excluding Government Stores and Treasure),  
handed in by Mr F W Newmarch, Financial Secretary to the India Office  
(see Question 1399)

Years.	Exports to China.		Total	Imports from China.		Total	
	Merchandise	Treasure		Merchandise.	Treasure.		
	£	£	£	£	£	£	
1885-89	Hong Kong - - -	7,318,641	19,133	7,337,674	1,020,288	1,198,234	2,158,523
	Treaty Ports - - -	2,115,479	6,712	2,122,191	254,269	777,659	1,031,928
1889-90	Hong Kong - - -	7,213,223	19,104	7,232,327	1,338,738	901,041	2,239,779
	Treaty Ports - - -	2,077,923	—	2,077,923	294,268	609,721	903,989
1890-91	Hong Kong - - -	6,415,548	267	6,415,815	1,312,559	2,020,546	3,333,105
	Treaty Ports - - -	3,211,382	55,901	3,267,283	300,971	1,041,586	1,342,557
1891-92	Hong Kong - - -	6,136,600	—	6,136,600	1,494,401	1,793,142	3,287,543
	Treaty Ports - - -	3,079,066	—	3,079,066	423,691	670,346	1,094,237
1892-93	Hong Kong - - -	6,169,606	—	6,169,606	1,497,944	749,696	2,247,640
	Treaty Ports - - -	3,532,705	—	3,532,705	397,076	262,400	659,476
	Yearly average - - -	9,454,014	20,223	9,474,238	1,666,840	1,992,914	3,659,754
1893-94	Hong Kong - - -	4,952,475	32,129	4,384,603	1,706,175	638,917	2,344,992
	Treaty Ports - - -	3,067,073	75,634	3,142,707	655,529	166,134	821,663
1894-95	Hong Kong - - -	5,409,197	14,649	5,423,846	1,175,993	294,665	1,473,648
	Treaty Ports - - -	3,054,434	6,462	3,060,896	596,322	44,175	640,497
1895-96	Hong Kong - - -	5,500,239	72,284	5,572,523	1,144,803	211,920	1,356,723
	Treaty Ports - - -	3,799,287	6,995	3,806,282	725,768	46,961	772,729
1896-97	Hong Kong - - -	5,585,851	17,324	5,603,175	946,962	293,539	1,240,501
	Treaty Ports - - -	3,626,537	—	3,626,537	485,763	24,076	509,839
1897-98	Hong Kong - - -	5,130,209	345,046	5,465,255	861,255	600,858	1,462,093
	Treaty Ports - - -	3,021,117	—	3,021,117	266,105	195,592	461,697
	Yearly average - - -	8,509,284	112,105	8,621,389	1,713,529	503,357	2,216,886
	Percentage of increase or decrease as compared with period No I - - -	-9.993	+454.333	-9.002	+2.801	-74.743	-39.425
1898-99	Hong Kong - - -	5,385,908	196,098	5,582,006	767,251	617,349	1,384,650
	Treaty Ports - - -	3,189,352	—	3,189,352	360,675	378,075	738,750
1899-1900	Hong Kong - - -	5,391,240	194,153	5,585,393	731,529	586,320	1,320,849
	Treaty Ports - - -	4,085,695	10,974	4,096,669	329,729	27,602	357,331
1900-01	Hong Kong - - -	5,344,945	97,827	5,442,772	1,067,584	486,290	1,553,874
	Treaty Ports - - -	2,353,747	118,135	2,471,880	670,442	501	630,943
1901-02	Hong Kong - - -	6,639,188	60,022	6,699,208	726,019	541,721	1,267,730
	Treaty Ports - - -	5,152,881	—	5,152,881	467,581	285	468,166
1902-03	Hong Kong - - -	6,284,774	193,984	6,478,758	1,004,042	926,686	1,930,728
	Treaty Ports - - -	4,377,428	47,044	4,424,472	461,624	425,377	887,001
	Yearly average - - -	9,679,830	183,647	9,863,477	1,309,975	798,063	2,108,028
	Percentage of increase or decrease as compared with period No. II - - -	+13.756	+63.817	+14.407	-23.551	+18.546	-4.910
1903-04	Hong Kong - - -	7,344,602	136,976	7,481,578	822,838	603,005	1,424,838
	China* - - -	4,695,066	307,442	5,002,508	495,148	210,020	705,168
1904-05	Hong Kong - - -	7,738,899	60,191	7,799,090	820,293	899,934	1,720,227
	China - - -	5,399,208	—	5,399,208	461,082	211,876	672,958
1905-06	Hong Kong - - -	8,943,799	65,000	9,008,799	679,440	625,095	1,304,535
	China - - -	5,384,014	9,265	5,393,279	503,651	157,970	661,621
1906-07	Hong Kong - - -	7,367,193	53	7,367,246	561,809	704,212	1,266,021
	China - - -	5,327,007	—	5,327,007	433,922	111,239	545,161
1907-08	Hong Kong - - -	5,766,466	214,816	5,981,282	746,565	985,854	1,732,419
	China - - -	4,341,021	10,653	4,351,674	718,668	88,804	807,472
	Yearly average - - -	12,461,535	160,879	12,622,414	1,248,822	919,403	2,168,224
	Percentage of increase or decrease as compared with period No. III - - -	+28.737	-12.398	+27.971	-4.663	+15.206	+2.856
	Comparing the last with the first quinquennial group the percentages of increases or decreases are - - -	+31.813	+695.308	+33.229	-25.078	-53.886	-40.755

\* Exclusive of Hong Kong and Macao.



## FIGURES of TRADE between—

(1) BRITISH INDIA and the UNITED KINGDOM

(2) CHINA and the UNITED KINGDOM

(Figures taken from the Statistical Abstract for the United Kingdom, except those relating to movements of Treasure between India and the United Kingdom, these are taken from the Indian Trade Tables)

(1) *British India*

Year	Exports to United Kingdom			Imports from United Kingdom		
	Merchandise	Bullion and Specie *	Total	Merchandise	Bullion and Specie *	Total
	£	£	£	£	£	£
I { 1889 - - -	36,199,204	239,254	36,438,458	32,429,249	7,322,766	39,752,015
1890 - - -	32,668,797	423,852	33,092,649	35,230,114	8,929,659	44,159,773
1891 - - -	32,234,398	820,534	33,054,932	32,549,207	5,326,239	37,875,446
1892 - - -	30,513,106	3,236,446	33,749,552	29,047,287	7,286,212	36,333,499
1893 - - -	26,233,949	1,183,146	27,417,095	29,931,554	9,605,867	39,537,421
Yearly average -	31,569,891	1,180,646	32,750,537	31,837,482	7,694,149	39,531,631
II { 1894 - - -	27,648,857	4,331,355	31,980,212	30,114,943	6,109,748	36,224,691
1895 - - -	26,431,315	2,248,824	28,680,139	25,487,089	5,398,963	30,886,052
1896 - - -	25,285,467	1,411,146	26,696,613	30,841,551	5,774,218	36,615,769
1897 - - -	24,313,099	1,470,266	26,283,365	28,009,385	8,489,873	36,499,258
1898 - - -	27,470,081	1,613,651	29,083,732	30,362,934	7,980,878	38,343,812
Yearly average -	26,329,764	2,215,049	24,544,813	28,963,180	6,750,736	35,713,916
Percentage of increase or decrease in comparison with period No I - - -	- 16 598	+ 87 613	- 25 055	- 9 028	- 12 261	- 9 657
III { 1899 - - -	27,740,503	1,644,578	29,385,081	31,967,811	7,242,597	39,210,408
1900 - - -	27,388,106	2,309,769	29,697,875	30,966,938	5,756,286	36,723,224
1901 - - -	27,391,734	2,157,144	29,548,878	35,746,399	7,515,273	43,261,672
1902 - - -	23,724,006	1,973,397	30,697,403	33,491,035	8,214,786	41,705,821
1903 - - -	32,304,747	2,363,391	34,668,138	35,320,217	7,776,919	43,097,136
Yearly average -	23,709,819	2,089,656	30,799,475	33,498,480	7,301,172	40,799,652
Percentage of increase or decrease in comparison with period No II. - - -	+ 9 039	- 5 661	+ 25 483	+ 15 659	+ 8 154	+ 14 240
IV { 1904 - - -	36,472,636	2,347,970	38,820,606	41,544,494	8,475,463	50,019,957
1905 - - -	36,062,291	2,356,824	38,419,115	44,361,153	7,147,852	51,509,005
1906 - - -	37,835,460	2,179,705	40,015,165	46,410,498	8,990,708	55,401,206
1907 - - -	43,939,184	2,117,948	46,057,132	53,311,127	11,507,161	64,818,288
1908 - - -	29,615,570	2,161,840	31,777,410	50,844,283	11,812,348	62,656,631
Yearly average -	36,784,628	2,232,857	39,017,485	47,294,311	9,586,706	56,881,017
Percentage of increase or decrease in comparison with period No III - - -	+ 28 126	+ 6 853	+ 26 682	+ 41 183	+ 31 304	+ 39 415
Comparing the last with the first quinquennial group, the percentages of increase or decrease are - - -	+ 16 518	+ 89 122	+ 19 135	+ 48 549	+ 24 597	+ 43 887

\* Rupees converted into sterling at the exchange of Rs 16 = 11

Trade between British India, China, and the United Kingdom—continued

(2) China

Year	Exports to United Kingdom							Imports from United Kingdom						
	Merchandise		Treasure		Total		Grand Total	Merchandise		Treasure		Total		Grand Total
	Hong Kong	Other Ports	Hong Kong	Other Ports	Hong Kong	Other Ports		Hong Kong	Other Ports	Hong Kong	Other Ports	Hong Kong	Other Ports	
I. { 1889 - - - -	£ 1,129,190	£ 6,116,591	£ 555,517	£ 241,876	£ 1,485,707	£ 6,357,267	£ 7,842,974	£ 2,886,629	£ 5,185,866	£ 886,471	£ 68,240	£ 2,795,100	£ 5,257,106	£ 7,982,206
{ 1890 - - - -	1,225,064	4,890,850	173,948	142,011	1,399,012	4,972,891	5,371,873	2,741,404	6,763,221	330,940	121,300	3,072,344	6,384,521	9,956,665
{ 1891 - - - -	1,101,702	4,731,508	682,291	556,891	1,238,993	5,270,399	6,504,392	2,732,187	6,525,662	280,151	22,180	2,992,308	6,547,842	9,540,150
{ 1892 - - - -	836,705	3,583,248	697,626	1,751,202	1,534,331	6,334,450	6,868,781	1,972,935	5,836,697	180,934	50,800	2,153,869	5,886,897	8,040,766
{ 1893 - - - -	885,834	3,894,268	617,409	927,906	1,403,043	4,822,164	6,225,207	1,935,419	4,699,336	1,663,997	470,900	3,699,416	5,370,236	8,969,652
Yearly average	1,085,659	4,627,491	465,568	723,937	1,501,217	5,351,428	6,852,645	2,854,109	5,802,736	554,499	186,584	2,908,608	5,989,320	8,897,928
II. { 1894 - - - -	690,818	3,543,362	580,698	1,477,507	1,211,511	5,020,869	6,232,380	1,980,227	4,592,140	2,170,959	980,230	4,151,186	5,572,370	9,723,556
{ 1895 - - - -	769,441	3,344,865	462,296	651,693	1,221,737	3,995,558	5,217,295	2,044,616	5,363,636	1,313,697	716,180	3,368,213	6,079,716	9,437,929
{ 1896 - - - -	797,168	2,973,887	226,522	858,736	1,023,480	3,832,628	4,866,303	1,959,209	6,860,896	675,151	106,400	2,634,360	6,967,296	9,601,656
{ 1897 - - - -	606,314	2,684,722	194,465	498,604	800,779	3,183,226	3,984,005	2,079,351	5,173,767	376,003	164,200	2,455,954	5,343,967	7,799,921
{ 1898 - - - -	726,637	2,668,064	221,486	1,166,509	948,123	3,834,573	4,782,696	2,347,689	5,099,497	631,607	178,460	2,979,196	5,277,947	8,267,143
Yearly average	704,073	3,042,760	337,092	930,590	1,041,165	3,973,970	5,014,535	2,082,338	5,419,167	1,033,443	429,092	3,116,781	5,848,259	8,964,040
Percentage of increase or decrease in comparison with Period No I	- 32 017	- 34 245	- 27 595	+ 23 546	- 30 045	- 25 751	- 26 823	- 11 545	- 8 610	+ 86 374	+ 129 973	+ 7 123	- 2 355	+ 7 743
III. { 1899 - - - -	883,126	3,069,452	840	200	883,466	3,069,652	3,963,118	2,862,315	7,136,706	563,891	1,587,350	3,416,236	8,724,056	12,140,292
{ 1900 - - - -	1,066,048	2,369,821	47,346	20,268	1,113,394	2,380,089	3,493,483	2,956,262	5,634,313	870,084	1,808,300	3,326,346	7,442,613	11,268,959
{ 1901 - - - -	602,641	2,110,119	224,428	42,134	827,269	2,188,253	2,985,522	2,797,978	6,827,646	619,966	651,680	3,417,944	7,479,226	10,897,170
{ 1902 - - - -	610,398	2,407,207	125,005	34,451	735,403	2,431,658	3,177,061	2,274,217	7,188,810	216,135	274,200	2,480,352	7,463,010	9,953,352
{ 1903 - - - -	582,764	2,679,567	104,565	93,891	687,329	2,713,258	3,400,587	2,891,710	6,798,015	245,801	114,100	3,138,511	6,912,115	10,050,626
Yearly average	749,055	2,526,393	100,337	26,189	849,372	2,752,582	3,401,954	2,756,503	6,717,078	501,375	887,126	3,287,878	7,604,204	10,862,082
Percentage of increase or decrease in comparison with Period No II	+ 6 986	- 10 971	- 70 235	- 97 130	- 18 421	- 35 753	- 32 158	+ 32 975	+ 23 950	- 51 485	+ 106 745	+ 4 561	+ 30 025	+ 21 174
IV. { 1904 - - - -	466,811	2,761,841	75,000	21,095	541,811	2,782,936	3,324,747	4,574,767	8,889,950	486,967	84,000	5,061,724	8,973,950	14,035,674
{ 1905 - - - -	386,440	2,340,346	—	—	386,440	2,340,346	2,726,786	3,841,735	13,295,828	404,841	556,330	4,246,576	13,855,158	18,101,734
{ 1906 - - - -	638,507	3,314,453	825,144	—	963,651	3,314,453	4,278,104	3,220,498	12,306,188	283,957	150,000	3,604,455	12,456,188	15,960,643
{ 1907 - - - -	618,860	3,471,931	78,333	319,064	697,193	3,820,997	4,518,190	3,355,403	12,137,977	183,250	376,200	3,538,653	12,514,177	16,052,930
{ 1908 - - - -	547,339	3,039,613	—	2,520	547,339	3,042,133	3,589,472	3,088,940	9,292,287	95,000	727,800	3,183,340	10,018,587	13,202,927
Yearly average	581,691	2,985,637	95,695	74,536	627,266	3,060,173	3,687,459	3,616,149	11,185,046	290,801	378,786	3,906,950	11,663,812	15,470,762
Percentage of increase or decrease in comparison with Period No III	- 20 030	+ 18 178	- 4 020	+ 184 608	- 20 147	+ 19 885	+ 8 392	+ 31 186	+ 68 517	- 41 909	- 57 304	+ 19 923	+ 52 071	+ 42 429
Comparing the last with the first quinquennial group, the percentages of increase or decrease are	- 48 671	- 35 480	- 70 445	- 80 704	- 58 215	- 42 810	- 43 189	+ 53 610	+ 92 755	- 47 556	+ 103 000	+ 34 324	+ 93 074	+ 73 869

APPENDIX IX

FIGURES of TRADE between INDIA and PERSIA (excluding GOVERNMENT STORES  
and TREASURE)

	Exports to Persia		Total	Imports from Persia		Total
	Merchandise	Treasure		Merchandise	Treasure	
	£	£	£	£	£	£
I { 1888-89 - -	955,207	123,398	1,078,605	487,305	53,326	540,631
1889-90 - -	1,148,470	69,926	1,218,396	535,944	87,306	623,250
1890-91 - -	1,160,629	35,621	1,196,250	473,455	124,907	598,362
1891-92 - -	1,342,234	73,831	1,416,065	473,332	72,416	545,748
1892-93 - -	1,266,524	77,240	1,343,764	458,061	54,348	512,409
Yearly average -	1,174,613	76,003	1,250,616	485,619	78,461	564,080
II { 1893-94 - -	1,224,747	102,260	1,327,007	489,470	120,539	610,009
1894-95 - -	1,586,717	61,463	1,648,180	529,785	116,575	646,360
1895-96 - -	1,142,959	61,592	1,204,551	581,865	83,960	665,825
1896-97 - -	890,674	74,586	965,260	457,322	101,355	558,677
1897-98 - -	936,074	14,709	950,783	461,275	73,365	534,640
Yearly average -	1,156,234	62,922	1,219,156	503,943	99,159	603,102
Percentage of increase or decrease in com- parison with period No I - - - -	-1 565	-17 211	-2 516	+3 773	+26 380	+6 918
III { 1898-99 - -	1,041,321	36,425	1,077,746	389,302	91,775	481,077
1899-1900 - -	740,902	66,286	807,188	551,955	80,729	632,684
1900-01 - -	883,315	92,447	975,762	475,798	62,634	538,432
1901-02 - -	817,171	85,153	902,324	452,036	48,950	500,986
1902-03 - -	804,741	31,597	836,338	432,257	39,121	471,378
Yearly average -	857,490	62,382	919,872	460,269	64,642	524,911
Percentage of increase or decrease in com- parison with period No II - - - -	-25 838	-0 859	-24 549	-8 666	-34 810	-12 965
IV { 1903-04 - -	735,632	124,571	860,203	291,640	34,323	325,963
1904-05 - -	716,850	77,834	794,684	294,048	99,419	393,467
1905-06 - -	625,366	46,308	671,669	288,315	171,241	459,556
1906-07 - -	617,174	61,938	679,112	317,774	103,617	421,391
1907-08 - -	799,719	69,979	869,698	288,838	76,049	364,887
Yearly average -	698,948	76,125	775,073	296,123	96,929	393,052
Percentage of increase or decrease in com- parison with period No III - - - -	-18 489	+22 031	-15 741	-35 663	+49 949	-25 120
Comparing the first with the last quin- quennial group the percentages of in- creases or decreases are - - - -	-40 495	+0 160	-38 025	-39 022	+23 539	-30 320

FIGURES OF TRADE between INDIA and other COUNTRIES, excluding CHINA and PERSIA  
(Government Stores and Treasure omitted)

Years	Exports from India		Total	Imports into India		Total
	Merchandise	Treasure		Merchandise	Treasure	
	£	£	£	£	£	£
I { 1888-89 - -	54,262,887	986,422	55,249,309	42,618,350	7,260,754	49,879,104
1889-90 - -	58,491,625	1,138,917	59,630,542	42,204,469	10,041,466	52,245,935
1890-91 - -	55,969,589	1,289,482	57,259,071	43,936,282	11,425,952	55,362,234
1891-92 - -	61,466,107	2,021,626	63,487,733	42,000,214	7,279,004	49,279,218
1892-93 - -	60,055,163	4,542,089	64,597,252	39,383,606	10,273,429	49,657,035
Yearly average -	58,049,074	1,995,707	60,044,781	42,028,584	9,256,121	51,284,705
II { 1893-94 - -	62,320,765	2,473,136	64,793,901	46,453,464	11,358,014	57,811,478
1894-95 - -	62,492,985	5,356,104	67,849,089	44,473,202	5,917,257	50,390,459
1895-96 - -	65,732,942	2,680,660	68,413,602	43,668,494	8,563,099	52,231,593
1896-97 - -	59,173,136	3,192,017	62,365,153	46,053,084	8,297,932	54,351,016
1897-98 - -	55,937,449	4,406,358	60,343,807	44,691,465	12,781,043	57,472,508
Yearly average -	61,131,455	3,621,655	64,753,110	45,067,941	9,383,469	54,451,410
Percentage of increase or decrease in com- parison with period No I - - - -	+5 310	+81 472	+7 841	+7 232	+1 376	+6 175
III { 1898-99 - -	65,537,068	4,706,264	70,243,332	44,069,666	10,835,389	54,905,055
1899-1900 - -	62,432,956	5,023,614	67,461,570	45,525,029	13,277,691	58,802,720
1900-01 - -	62,797,346	4,674,563	67,471,909	48,678,000	10,426,314	59,104,314
1901-02 - -	70,367,351	5,496,536	75,863,887	52,700,050	12,507,954	65,208,004
1902-03 - -	74,409,966	5,600,716	80,010,682	50,627,349	15,445,968	66,073,317
Yearly average -	67,108,937	5,101,338	72,210,276	48,320,019	12,498,663	60,818,682
Percentage of increase or decrease as com- pared with period No II - - - -	+9 778	+40 857	+11 516	+7 216	+33 199	+11 693
IV { 1903-04 - -	89,197,643	4,795,793	93,993,436	54,939,241	20,449,159	75,388,400
1904-05 - -	91,155,204	5,254,351	96,409,555	62,876,068	20,807,124	83,683,192
1905-06 - -	92,858,884	4,179,270	97,038,154	67,251,306	12,993,219	80,244,525
1906-07 - -	104,636,454	3,746,680	108,383,134	70,891,549	17,214,922	88,106,471
1907-08 - -	107,331,473	3,335,370	110,666,843	84,842,658	20,729,578	105,572,236
Yearly average -	96,335,932	4,262,293	101,298,225	68,160,165	18,438,800	86,598,965
Percentage of increase or decrease as com- pared with period No III - - - -	+44 297	-16 448	+40 282	+41 060	+47 526	+42 389
Comparing the last with the first quinquennial group the percent- ages of increases are	+66 817	+113 573	+68 704	+62 176	+99 207	+68 859

## APPENDIX X

SPEECH OF FINANCE MEMBER OF THE GOVERNMENT OF INDIA, INTRODUCING  
 A BILL FOR THE ESTABLISHMENT OF A PAPER CURRENCY IN INDIA,  
 3RD MARCH 1860 Handed in by Mr F W NEWMARCH, Financial Secretary  
 at the India Office (with reference to Question 1640)

Mr Wilson rose and said —

Mr President,—Sir, when I had the honour, a fortnight ago, to lay before the Council an exposition of the Financial policy of Her Majesty's Government of India, and to propose that the people of India should be subjected to some new imposts in order to relieve the necessities of the State, I then gave an assurance, on behalf of Government and myself, that we were deeply imbued with the necessity of taking stringent and bold measures for securing to India at the same time such administrative reforms as were urgently required, not only in order to secure the greatest possible economy, but the greatest efficiency in the public service. In pursuance of the notice which I gave last week, I now rise to propose our first measure in redemption of the pledge I then gave. Sir, I believe there is but one opinion throughout India, and I will add at home, that the currency of this great dependency of the British Empire is in a most unsatisfactory state, there may be, and no doubt there are, many different opinions as to the mode in which its glaring defects can be best amended, but at least all are agreed that amendment is loudly called for. And I think Honorable Members will agree with the Government in regarding this as one of the most important reforms in administration, and as one calling for the earliest attention of the Government and the action of this Council. Sir, I must say that I know no question of greater importance to the commerce, the industry, and the material well-being of a country, than that of the laws which regulate its currency. If your monetary condition be unsound, the country will be exposed, in an aggravated form, to all those vicissitudes which overtake trade, for a time paralyze industry, and impoverish the people—if, on the other hand, it be based on sound and solid principles, we may rest contented that we have at least taken every precaution within our power, if not for altogether preventing those vicissitudes, yet for alleviating their consequences and shortening their duration.

Sir, I approach this subject not without considerable anxiety—an anxiety in no degree arising from any doubt or mistrust which we have in the principles I shall have to avow on behalf of the Government, or of the soundness and adequacy of the measure I have to propose. No—my anxiety arises from a doubt in my own powers to expound those principles, and that measure sufficiently clearly to carry your views along with me, for not only is the subject of itself extremely intricate, but it has been rendered still more so by the great variety of views which have been discussed, and the great diversity of systems and proposals to which those discussions have given rise. But, Sir, it is essential for the success of our measure that we should carry public opinion with us in the soundness of our plans. My only aim, therefore, in now addressing you, will be to lay down those principles, and to explain our measure in a manner to make myself as intelligible as I possibly can to all, and if in so doing, I shall detain you somewhat longer than you could wish, I trust to the great importance of the subject as my excuse.

Sir, we wish to deal with this question in a broad and comprehensive manner, befitting the interests of a great country—in a manner which shall be applicable alike to all parts of India—in a manner which being sound in principle, we may safely leave to a development as wide as the wants of India can ever require, however great they may be. Sir, we feel it to be a

great principle in Government to base our measures with regard to all matters of trade or finance on so sound a footing, that we may safely leave them to their own self-development, according to the unrestrained requirements of the public from time to time, without the constant interference which unsound principles demand from the State to bolster them up. And we feel that, in applying such principles to India, we have at least this advantage, that we have almost what I may term a *tabula rasa* upon which to act. No doubt one of the great difficulties which other Governments have had to deal with in reforming their currency legislation has arisen from a net-work of unsound practices and of existing interests which stood in their way. Fortunately, we can hardly be said to labour under such a difficulty. At the same time, the subject is so novel in India, and I may add the relation of the Government to the people is so peculiar, that I cannot but feel, in order to make our course clear and the benefits to be derived from our measure intelligible, it will be necessary for us to consider the question from its foundation, and I hope I shall not be thought pedantic if I venture to lay down some of the first axioms as to the nature and character of currency, in order that we may the better judge of the soundness of the superstructure which we shall raise in the shape of a measure proposed for your adoption.

In the first place, then, we shall, I think, be all agreed, that the only legitimate object of currency, in whatever form it exists, is to act as a medium for circulating commodities in a manner infinitely more convenient than any system of barter could effect that object, and that this is best attained by the adoption of one of the precious metals, gold or silver, as the least fluctuating standard to which the values of all other commodities can be referred and by which they can be defined. At the same time, it must be plain that, in thus setting aside a large amount of the precious metals for this purpose, we are really abstracting from the common stock of the country so much capital, and devoting it to a purpose which yields no profit or interest, but which nevertheless gives to the remaining common stock of capital so great an increased value, by the additional facilities which are given to exchanges, as fully to compensate for the abstraction of so much capital. Well, then, applying this principle to things as they actually exist in India—how do we stand? The standard which we have adopted is that of silver. Whether it is the best or not, we will consider hereafter. But at least, I must ask you to bear in mind, and never to lose sight of the fact, that from time immemorial the standard of value in India has been one of silver,—that every obligation, public and private, has been contracted in a currency of silver,—and that all such obligations to pay any given number of rupees at any date however remote, is really nothing more or less than an obligation to deliver so much silver.

Then let me ask, how much capital has there been abstracted from the common stock in India for this purpose? How much continues abstracted, performing the function I have described, though I fear in a most inconvenient form—indeed, in a form, as I shall show, which leads to further great sacrifices independent of the loss of so much re-productive capital? It may be difficult to form any precise estimate of the amount. But at least we know enough to come to the conclusion that the amount is very large. Since 1835, I find that the coinage in the three Indian Mints has exceeded a sum of one hundred crores of rupees, equal to one hundred millions of pounds sterling. But, Sir, this would give but an inadequate idea of the rate at which silver coin is being now absorbed. One hundred millions in twenty-five years give only a general average of four crores of rupees, or four millions sterling in each year. But what is the magnitude of our transactions now? In the last four years the quantity of silver coined at our Mints, and absorbed in the country, amounts to no less than forty-seven crores of rupees, or 47,000,000*l.*, being at the rate of nearly 12,000,000*l.* in each year. Sir, could we have a stronger proof of the rapid increase of the activity of our trade, and I will add of the wealth necessary to minister to it? Now, I am not unmindful of the fact that all this coin does not remain in circulation—that much of it is, unfortunately for the country and for its owners, hoarded, and that some of it is again melted down for jewellery. But making all due allowance for these abstractions, there must be in actual circulation

as coin a sum of money exceeding one hundred millions sterling, or one hundred crores of rupees, more than the equivalent of the whole debt of India, and it is an important fact that this amount is annually increasing, and must increase, as trade becomes more active, thus abstracting more and more from the re-productive capital of the country.

But, Sir, I have hinted at other ways in which the public in India, and I may add the Government, are exposed to loss through our present monetary system. Our currency consists exclusively, or nearly so, of silver coins, forming a great bulk and weight in proportion to its value. Can any one form a just estimate of the whole cost to which the public are put in transmitting this bulky coin from place to place? Can any one even judge of the expense the Government alone has incurred on this account? I have seen many estimates on this head. If I mistake not, I have seen an estimate made by Sir Charles Napier, that the protection of Government Treasure, in escort and in other ways, gave employment to something like thirty thousand native troops. But be that as it may, be it exaggerated or not, there is no question that the public of India are put to an enormous annual cost for the mere risk attending the transmission of coin from place to place.

Now, Sir, let us enquire what are the means which the application of Economical Science and experience have pointed out in far advanced and highly civilised communities, by which this great abstraction of capital from re-productive purposes can be reduced, by which the cost and risk of removing coin in bulk can be obviated, and by which a great and general economy to the State and the public can be effected? No doubt, between nation and nation, this is chiefly done by the well understood and valuable contrivance of Bills of Exchange—in the domestic transactions of a country, this economy is to some extent effected by Banking operations and transfers, to some extent by Bills of Exchange but to a much greater extent, and in a far more convenient form, by the use of Bank Notes of uniform amount, and for such sums as suit the ordinary transactions of life, but so regulated as to represent in reality the coin for which they are used. But before I proceed further, I am desirous of here noticing some proposals that have been made from time to time in India for the purpose of remedying the defects of our monetary system by the introduction of gold coins. Now, Sir, I must say that, having given all the proposals which have been made for this purpose, or that are capable of being made, our most careful consideration, I am unable to recognise in any one of them a reasonable or unobjectionable mode of accomplishing the object. Shall we adopt a double standard of gold and silver? Sir, few will be found to advocate such a plan. No doubt, gold and silver vary in their intrinsic value in relation to each other, much less than perhaps any other two articles that could be named, but, nevertheless, they do vary, and that not inconsiderably, as the experience of the last few years has shown. In relation to silver, gold is certainly at least five per cent cheaper than it was ten years ago, and when we come to treat of national obligations, that may represent a large sum. What effect then would the adoption of a double standard have? Why, clearly to enable the debtor to discharge his obligation in whichever might at the time be the cheapest metal. This, Sir, would destroy the whole object, and the great utility of a standard at all, and would simply enable the debtor to pay in one material what he had contracted to pay in another. Sir, we are not prepared to adopt a measure admittedly so defective and so unsound. But, then, it has been proposed that gold coins should be circulated, and should pass only at their intrinsic value, fluctuating from day to day according to the fluctuations of the price of gold. But, Sir, it would be a mere misnomer to call such coins money. Could the transactions of a country be carried on with coins which to-day might represent 10 rupees and 8 annas, to-morrow 10 rupees, and the next day 9 rupees and 8 annas, and so on? Think of the inconvenience which would arise from such a system and the altercations which would ensue between buyer and seller as to what the real intrinsic value was from day to day, or even from hour to hour. Again, think of the dissatisfaction which would naturally be felt by any one who, having received a coin of the Government at one rate to-day, found, when he required to use it to-morrow, that it had fallen in value by 4 or 8 annas.

Sir, if there is one duty more than another which the Government owes to the public in respect to its monetary arrangements, it is that the coins, which it circulates with its authority, shall be of one common and unvarying value. But another proposal has been made with a view of obviating the evil of a fluctuating value. It has been proposed that gold coins shall be issued representing 10 rupees of a certain weight and fineness, and that their value should be fixed by law as a legal tender for a given period of time, say six months or a year, when the exact value should be re-adjusted according to the market value of gold for another period of time. But what would be the practical effect of such a plan? If, after the value was fixed, gold were to rise in price, then there can be no doubt all the gold would disappear from circulation—if, on the other hand, gold were to fall in price, it would become profitable to send gold to the Mint to get it coined, and with it to purchase silver coin at a profit. In such case no doubt a considerable quantity of gold would be forced into circulation. But the day of reckoning would soon come—the time when a re-adjustment of the legal tender value of the coin would take place. A large quantity of coins which had passed as legal tender for 10 rupees for a certain time would on re-adjustment pass for 9 rupees 8 annas. Who is to bear the loss? The unfortunate holders at the time the re-adjustment took place. Would this be a satisfactory arrangement? My own belief is that in practice all these schemes to make two metals, which are always less or more varying in price towards each other, circulate in strict uniformity, would entirely fail. It has been tried in Europe under the most favourable circumstances, and has failed there. I have here a monetary convention, which was entered into in 1856, between the Austrian Government and all the other German States, with a view to have one uniform current coin. Everyone who has travelled through Germany is aware of the great inconvenience which resulted from the various coins which were in circulation throughout those States. The standard of value in Germany and the current coin are of silver, as is the case in India. But some of the parties to the Treaty, and especially the Government of Austria, were anxious to supplement their silver currency with gold coins, as has been desired in India. The plan for this purpose provided for by the Treaty is similar to that upon which I have just commented—it was provided that gold coins should be issued at a fixed valuation which should remain a legal tender, and current for six months, and should then again be subject to re-adjustment in their current value according to the market price of gold, and so on, a new re-adjustment taking place every six months. The words of the Treaty are —

*Extract from the German Monetary Convention, dated January 24th 1857*

Article XXI para a.—That each State is at liberty to allow their gold coins (Article XVIII) to be taken at their treasuries in lieu of silver, at a rate of exchange to be beforehand decided upon, and this at all treasuries, and for all payments or only partially, as shall be thought proper. Such pre-decided rate of exchange shall last at the utmost for six months, and at the close of the last month is to be each time re-considered for the next similar period.

Well, Sir, when I saw that propositions of a similar character had been made here, I wrote to Lord Wodehouse, the Under-Secretary of State for Foreign Affairs, and begged that he would ascertain from the Austrian Ministry what had been the practical effect of that provision in the Treaty. I have just received His Lordship's reply. He encloses a communication from Lord Augustus Loftus, our Minister at Vienna, of which the following are extracts.—

*Extract from Despatch of Lord A. Loftus, No 92, dated November 8th 1859*

The provisions of the convention between Austria and the Zollverein States, affording the faculty of supplementing their legal currency by the addition of gold coinage, have virtually been a dead letter as regards Austria.

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Under these circumstances, the provisions in the monetary convention in question, as far as regards gold, have never been acted on, and very little gold comparatively has been coined in Austria, that metal for some years past being little current, and principally confined to the hands of money-dealers and merchants, for the purpose of making payments in foreign parts, it cannot therefore be reckoned an active or operative portion of the specie currency of the Empire.

Sir, the experience of Germany is not encouraging for India to rely upon impracticable schemes of this nature for the improvement of our currency.



But then another and more extensive change has been suggested, and that from a quarter deserving of every consideration. It has been said—why not change our standard of value?—why not, as in England, adopt a gold standard, supplemented by silver tokens of limited tender as subordinate coins? Sir, if we had now to begin *de novo*, no one would doubt that that would be a much preferable plan to that which we now find in use. But we have to deal with a system already established—a system under which an enormous amount of obligations, both public and private, has been incurred. As I have already said, those obligations in reality are to pay a given quantity of silver. And if we were now to change our standard of value, and to adopt gold in place of silver, because the former is becoming cheaper in relation to the latter, I think no one can doubt that we should by law be enabling every debtor—the State amongst others—to commit a breach of faith upon his creditor. Let us bear in mind that a reduction in the price of gold of only 5 per cent would, under such circumstances, in effect reduce the claim of the holders of the public debt of India by no less a sum than five millions sterling. Sir, we are bent upon reform and economy in every legitimate shape that lies within our reach, but we believe that the credit of the Government will be best sustained by the most rigid observance of good faith in all its transactions.

Then, Sir, however free we are to admit the great inconvenience of the existing system, we are unable to look in the direction of a gold currency for a cure of its defects. But we think we can propose one in every respect more effective for all the objects we have in view, and one which will strictly maintain the integrity of our present standard, and which will not expose us to the suspicion of tampering with the obligations of the State. We have no doubt that all the objects at which both we and the public aim, will be far better and more perfectly accomplished by having recourse to a sound, well-regulated, Paper currency of general application to the whole of India, and at all times easily and readily convertible into the coin which it represents—a Paper currency so well secured that it can safely be made a legal tender in all transactions throughout India. Sir, on all hands, and by all our most accredited authorities on Political Economy, the adoption of a paper circulation so well guarded as always to maintain the full value of the coin it represents, is regarded as one of the highest and most beneficial efforts of political science and civilisation. It enables us to use as an instrument of circulation, in place of the unwieldy and costly coins which we do at present, a representation of them which costs little or nothing, but which in every way is infinitely more convenient. In this way it effects a great economy of capital by releasing the precious metals which are much more imperfectly performing the same purposes. Some writers have compared the adoption of a Paper currency to the discovery in the country of new mines, because you do really add to the effective wealth of the country, to whatever extent paper replaces the coin in circulation. Adam Smith, I think, it is who compares the economy thus effected to a discovery by which all your locomotion could be conducted without roads, and by which you were enabled therefore to add the existing roads to the portion of the land under reproductive cultivation. The road is an abstraction from the fruitful portion of the soil, but the sacrifice is abundantly compensated for by the additional value which it gives to the rest, so the precious metals used as a circulating medium, yielding as it does no interest, and being, as I have said, an abstraction from the reproductive capital of the country, the loss of which, however, like the land used for roads, is compensated for by the greater value given to the remainder. But, Sir, if we can to a great extent, by the use of paper, effect the same object, then we release that unproductive capital for other purposes, while we confer a greater convenience upon the public. The inconvenience of the present money in use is sufficiently familiar to every one in private life—the inconvenience to those engaged in large transactions, especially out of the Presidency Towns, and where there are no bank notes, is still greater. In one of the large Trading Towns in the North-West I found a remarkable example of this inconvenience. I found that recourse had been had for a circulating medium, in order to save the labour and time of counting large sums in rupees, to the use of 'mysterious sealed bags, said to contain' a thousand

rupees each. These bags circulate freely in wholesale transactions, upon the faith the merchants have in each other, with a "chit" or letter of indorsement, without always any precise knowledge of what the real contents are. Sir, when recourse is had to expedients of this kind, we have ample proof that some reform in our existing system is loudly called for. But, Sir, independent of the great economy of capital which is thus effected by a Paper currency, there will be a further economy in three other important ways—first, we shall find a great reduction in the cost of the Mint; next, we shall save the wear and tear to which the coin in circulation is exposed, and the great loss which the public incur from light coins; and, lastly, we shall, both as a Government and as a community, save not only great expense but also great risk in the transmission of money from place to place—we shall be able to adopt the improved plans of civilised nations in place of adhering, as we do to this day, to a practice which had its origin long before the Christian era.

But, Sir, a Paper currency, in order securely to carry out all these advantages, and to be a perfect representation of coin, must be based upon certain well-known and defined principles. In order that the paper shall be identical in value with the coin, it must not only be made convertible in theory and by regulation, but sufficient security must be taken to provide for that convertibility at all times. By this means the quantity of paper in circulation will always be identical in quantity with what it would be were it to continue wholly a metallic circulation. The notes issued would not be an addition to, but a mere substitution of, the silver coins which they displaced. It is, Sir, a Paper currency upon this sound principle which we seek to establish in India—a principle which has stood the test of experience in other countries, where it has been found equal to the magnitude of the largest trading transactions. But in order that a Paper currency shall fulfil all the purposes of coin it is necessary that it should be a legal tender everywhere, except at the place of its issue, where it is convertible into coin, and it should moreover be received by the Government in payment of revenue and for all other purposes.

Assuming then, Sir, that I have been fortunate enough to carry the Council thus far with me, it will now become my duty to state in what manner the Government is of opinion a Paper currency, combining all these advantages, can best be carried into effect. And here I propose, for the sake of clearness, to divide our plans into five distinct heads—first, as to the agency through which such notes can best be issued, second, as to the manner in which the necessary securities can best be taken for the conditions which I have laid down as essential to a well regulated Paper currency; third, as to the functions to be entrusted to the issuing body; fourth, as to the denomination of the notes to be issued; and, fifth, as to the securities to be taken against forgery.

In the first place then, Sir, we are to consider what will be the best agency to use for the purpose of circulating a Paper currency. Now, let us bear in mind that the proposal is, and we think that essential, that the notes to be issued are to be a legal tender in all transactions between man and man, that they are to be received at every Government Treasury for all demands of the Government for revenue or other purposes, and that the system is to be general, and to extend over the whole of India. It is essential that we should bear these conditions in mind. Well, in point of practice, the issue of paper money has hitherto been usually confined to banks or to Governments. I may say most usually to banks, and there is no doubt that in old countries, where the system has long been combined with the institutions of trade, and where the machinery of banks upon a sound basis exists and is spread all over the country, they possess considerable facilities for exercising this function. But let me here remark that the issue of notes does not necessarily constitute any part of the business of a banker, who is more properly a dealer in capital; a borrower from one man and a lender to another upon higher terms, which forms his profit, in short, a most useful and beneficial medium, through which the spare capital of one portion of the community is rendered profitable in the hands of another. We can have no better proof of this than the facts that, notwithstanding the great number of private and joint stock banks in

London, none of them (the Bank of England only excepted) do or ever did issue notes in Manchester, one of the largest emporiums of trade in the world, not one of the Banks (the branch of the Bank of England excepted) issues notes, and by the laws of 1844 and 1845 all Banking Companies established after those years within the United Kingdom are distinctly interdicted from issuing notes. We require no further proof that the issue of notes is no necessary part of a banker's business. But, Sir, there are peculiarities in our position in India, and in the system which, on the part of the Government, I am about to propose, which would render it even more difficult than usual to employ the agency of Banks in India. In the first place the system is to be universal. How many years should we have to wait before we could expect that any Banks, however extensive their capital, could establish branches throughout the whole country for this purpose? But, again, even though that difficulty were got over, we have still another which I regard as insurmountable. Our notes are to be a legal tender, they are to be received by every private person, as well as by the Government, in discharge of all ordinary claims. To attach this condition to our notes, we must provide absolute and undoubted security for their payment, not only for their ultimate payment but for their convertibility into coin when required. Well, Sir, if we employed the agency of a Bank, we should require not only a deposit of securities which would ensure the ultimate payment of the notes, but also of a proper reserve of bullion, to secure their prompt and immediate payment. We could not make them a legal tender on any other conditions. Well, but the business of a Bank established upon such a scale could not be, and it would not be desirable that it should be, confined to the issue of notes. It would extend to all other banking business. It would hold deposits, it would issue bills of exchange, it would discount and negotiate mercantile paper in short, it would have a great variety of creditors other than those who held its notes. Would it then be practicable, would it be fair towards the great body of its creditors, if so large a share of its assets, as I have said, should be set aside as security for its notes in favour of one class of its creditors, to the possible injury of all other classes? Would it be fair to protect the note-holders at the possible risk of the depositors? Sir, with one exception, to which I will shortly refer, I know of no Bank whose issue of notes are a legal tender. The Banks in Scotland all issue notes, but they are not a legal tender, the notes of the English and Irish local Banks are not a legal tender, the notes of none of the American Banks are a legal tender, the notes even of the Bank of France are not a legal tender, the notes of the Bank of England only, and this is the exception to which I referred, are a legal tender, and this exception is defended upon the ground that the Legislature has entirely separated the department for the issue of notes from the department for general banking business, and that it has provided that, in the issue department, there shall at all times be retained public securities and bullion to the full amount of the notes which, from time to time, it issues. Now there may be, and no doubt there is, a question how far this separation of accounts is real or nominal, as it affects the interests of the different classes of creditors, but practically, considering the large capital of the Bank of England, upwards of seventeen millions sterling, including the Rest, and considering the publicity given to all its transactions and its accounts, the question would never arise. But with a new establishment in India it could not but be otherwise. On every ground, then, while we wish to see banking establishments extended, we have come to the conclusion that we cannot avail ourselves of the agency of Banks for a general Indian paper currency.

But, Sir, if there are special reasons why Banks in India cannot be used for this purpose, there are others as special and peculiar to India which point to the remarkable facilities possessed by the Government for the issue and management of a paper circulation. Throughout India, in every part, however remote, the Government has an organised body of public officers, of receipt of revenue on the one hand and of expenditure on the other. Indeed, it is not too much to say that the great recipients and disbursers of money throughout the whole of India are the revenue and other officers of the Government. The Government Treasuries may be said practically to

represent the great bulk of monetary transactions in most districts. Practically the transactions of these Treasuries, and the money that is accepted at them, must regulate the transactions of India. Well, but Sir, we have to use every possible precaution against abuse of the power which the Government would have, if it had an uncontrolled authority to issue notes. If we are to make the notes a legal tender, we must take absolute security not less than that I have described for the safety of those notes. We must take care that, under no circumstance can the Government abuse the privilege of making paper money, and by over issues for purposes of expenditure endanger their convertibility, and thus run the risk of their depreciation. We do not then propose that the Government itself, in any of its existing departments, shall be empowered to issue notes, but that, by the Bill which I shall ask leave to introduce before I sit down, a Commission shall be formed, whose duties shall be strictly defined by law, over whom the Government shall have no power except within the limits of the Act, and who shall be bound upon oath to obey the provisions of the Act. Sir, in this we aim at no novelty. In this and all our measures we are not ambitious of being regarded as ingenious inventors, we are content to accept the more humble, but by far the safer function of applying, in the most approved manner to the circumstances of India, those great principles of sound science and its practice which long years of discussion and experience have proved in advanced countries to be compatible with public interests and public security. Sir, as nearly as possible, we take the issue department of the Bank of England as our model, but we take it under most favourable circumstances, being stripped of its only objectionable feature, its connection with the banking department.

This, then, brings me to the second point. The manner in which security shall be taken for the performance of the conditions which we regard as essential to a paper circulation, which is a legal tender, and, together with this, we may, to save time, consider also the third head, that is, the functions of those who will be entrusted with the issuing of the notes. Sir, for this purpose we propose to divide the three Presidencies into convenient districts, to be called *Currency Circles*. Our object will be so to arrange these circles that the chief station of one of the existing districts for revenue purposes will be near to its centre. In connection with the Mint at Calcutta will be the head establishment, where the notes for the whole of India will be made, under the direct superintendence of the Head Commissioner. In connection with the Mints at Madras and Bombay, there will also be established Commissioners, in whose charge the circulation of those Presidencies will be placed, and who will be supplied with notes from Calcutta. But for the sake of clearness I will confine my observations now to this Presidency. The local circles having been determined and fixed, the chief station within it, where we should find the principal Treasury of the district, which would also be a Military Station, and at which a considerable European population would be found, such a place for example as Benares, or Allahabad, or Lahore, would be fixed upon as the station for the Branch Department of Issue, under the control of a Deputy Currency Commissioner. The functions of the Commissioner in Calcutta and of the Deputy Commissioner at the local branches, so far as regards the issue of notes, would be precisely those of the Issue Department of the Bank of England. They would receive coin and silver in exchange for notes, and they would always be prepared to pay coin in redemption of the notes of their district. The notes, like those of the Bank of England, would be of similar appearance for all India, but the notes of every Branch would bear upon its face the name of the Branch at which it is issued. All Branch notes will be payable in silver at the Branches from which they are issued, and also in the Presidency Towns to which the Branch belongs, whether Calcutta, Bombay or Madras. The notes will be received into every Treasury in the circle in which they are issued in payment of revenue and of all other claims of Government. But there would be no more connection between the Government Treasuries and the Issue departments than with private Banks. In the first instance, the Government Treasuries would exchange such part of their silver as they desired for notes. The Issue department would receive

the coin and the Treasuries the notes representing it, for circulation. Bankers and others requiring notes for the purpose of trade would obtain them in exchange for silver, and in the seaports, merchants importing silver would carry it to the Issue department, and at a fixed rate would at once receive notes for the full amount in place of waiting, as they do at present, till it is coined, thus giving them the same advantage that the importer of bullion has in London in carrying his bullion to the Bank of England, and of receiving its own notes in exchange, which are convertible into coin, and can at once be used for all trade purposes. Now, according to this plan, it will be plain that the Issue departments, neither in Calcutta, nor in the districts, can ever have in circulation a larger amount of notes than they possess coin to represent, but inasmuch as a larger proportion of the notes thus circulated will remain out, and at any time only a small proportion can ever be presented for payment, each Branch and each chief department of issue will be permitted to invest a portion, in no case exceeding two-thirds, in Government paper, which will be held by the Issue department, specifically appropriated to the payment of the notes, and the remainder, not less than one-third, will be held in bullion, ready to meet the claims of those who wish to exchange their notes for coin. The necessary balance of coin at all the branches will be kept up, if needful, by supplies from the head departments in the Presidency Towns. The circulation of the Bank of England is usually about twenty-one millions, which is represented by fourteen millions of public securities, and the remainder in bullion. By these means, Sir, we should give to the country all the convenience to be derived from a Paper currency. We should effectually provide at all times for its absolute security and for its instant convertibility. The Issue department would always be possessed of bullion and public securities together to the full extent of the notes issued. Be the amount ever so great, the principle would be so sound that no other limit need be placed upon the action of the department. The legitimate demands of trade alone would determine the amount of the circulation, without any interference on the part of the Government to attempt to regulate it. Such a mixed currency of paper and coin would exactly correspond with that which, under present circumstances, would exist, if we continued to circulate coin only, and that, Sir, is on all hands admitted to be the true test of a sound currency. These, Sir, are the functions which the Issue departments will perform, and these the securities which we propose to take for the performance of the conditions which I have described as being essential to a sound Paper currency, and we have no doubt they will be considered as ample for the purpose. And, Sir, it will be obvious that by this means a large profit will accrue to the Government. The Commissioners of the Issue department will receive the dividends due upon the stock which they hold, which they will pay into the public Treasury as the profits of the note circulation, but the Government will be benefited in another form, it is impossible that so large an amount of public securities can be taken out of the market without raising their price, and proportionately in a most legitimate way improving the credit of the State. The practical effect of these measures will indeed be the redemption of so much of the public debt as shall be thus held by the Commissioners of the Issue department of the Government.

Then, Sir, we have next to consider what ought to be the denomination of the notes so issued? This is a subject upon which much difference exists both in opinion and in practice, and it will be obvious that it can only be properly determined by a reference to the character of the transactions of a nation, whether as a rule they represent very small and minute sums, or whether they represent generally larger sums. In England the lowest denomination of notes is 5*l*, in Scotland and in Ireland it is 1*l*, in France it is 100 francs, in the United States it is one dollar or about 4*s* 2*d*, in some of the North American Colonies one dollar notes freely circulate, throughout Germany the thaler note, of value little more than 3*s*, is the most common circulation, in Mauritius the circulation consists of notes of 5 rupees or 10*s* and upwards, in Ceylon the notes are of 10*s* and upwards, formerly they were of 5*s*, and by a report on the subject which I recently

received from the able and accomplished Governor of that Colony, Sir Henry Ward, it appears that the suppression of notes of that denomination had been attended with inconvenience to the planters and others, of which complaint had been made. But from what I have already said, it will be apparent that, as a matter of security, it is much more important that the circulation should be based upon a really sound principle, than in any way unduly restricted in the denomination of the notes. It must be plain that a principle which makes notes of a large denomination safe and secure must equally extend to those of a lower denomination. And, Sir, there will be a peculiar source of absolute security in respect to the paper circulation of India, which attaches to perhaps no other Bank of Issue in the world. In all other cases with which I am acquainted, notes are issued to the public in the shape of loans, in discount of bills, and as advances in various forms. Now it may be said, and truly, that even if issued for those purposes, they could not remain out in excess of the public requirements so long as they are convertible at the pleasure of the holder into coin. This is a point upon which the great majority of practical authorities may be said to be now agreed. To believe that convertible notes can continue in circulation in excess, is to contend that a note that can be easily and instantly exchanged for coin can be depreciated, because the only proof that I know of an excess of circulation is depreciation of the notes in relation to the coin it represents. Now no one I think will contend that any man having a note in his possession which did not command the same exchangeable value as the coin it represents, and having it in his power to exchange that note for the coin, would fail to correct the anomaly by that means. But there have been those who have thought differently, and even to those I would say that the issue of notes upon the principle we propose cannot possibly be attended with any such risk. Sir, our notes will be purely bullion notes, they will be issued only in exchange for bullion—there will be no issues as credit advances in any shape whatever. That is the legitimate business of Banks. It is ours to furnish a circulating medium—it is theirs to use it in all the variety of forms which credit transactions assume. In our case we are absolutely restricted, and by force of a great and obvious principle we maintain intact the full intrinsic value of the currency—in theirs, they are governed by the ordinary principles which govern all commercial transactions. Well, Sir, these are not unimportant considerations, when we are determining the denomination of the notes to be issued. But the main consideration, after we have determined upon a sound self-acting principle, is the character of the transactions of the country and the denominations of the coin in use. It is the imperative duty, it is the interest of a Government, to furnish a circulating medium for exchanges determined in amount by the wants of the community. Well, the great characteristic of Indian transactions is their number and their multiplicity. And, then, if we bear in mind that the highest denomination of coin in circulation is one of only a single rupee or two shillings, while in England the common coin is one of twenty shillings, it would appear that we should be justified in adopting the old practice in Ceylon and the present practice in many countries, and adopt notes of a denomination as low as two or two and a half rupees. But, Sir, we do not propose to go so low—we propose to begin with five rupees or ten shillings, adopting the limit at this time actually in practice in Ceylon and Mauritius, and beginning with that denomination, to have others of *ten, twenty, fifty, one hundred, five hundred, and one thousand* Rupees, which latter I hope will take the place of the mysterious sealed bags which circulate at Murzapore.

Sir, we think it is essential to the plan to have notes of a small denomination, in order to furnish change for the notes of larger amount, which will be extensively used as an easy mode of remittance from one part of a district to another. As I have said before, these notes will be payable in coin at the central offices of the district from whence they are issued, and they will be all payable as well in Calcutta, Bombay, or Madras, as the case may be. They will be receivable in every Government Treasury within the circle in payment of revenue or any other claims of the Government whatever. And I cannot help believing that such a system of currency will

prove of an immense convenience, compared with the present cumbrous system of conducting all our transactions, however large, in two-shilling silver pieces.

Well, then, Sir, the fifth and last head is, what precautions we are prepared to take against forgery? and I think we shall be able to satisfy you that we have not only not been unmindful of that important point, but that we have already taken measures, and that successfully, which will give us every security that it is possible to attain on this head. But here I would remark upon a point which I think has been too much overlooked in connexion with the relative risk which exists between a currency of coin and one of paper. We must bear in mind that coin can be counterfeited while notes can be forged. Two years ago, I moved for a return in Parliament of the number of prosecutions which had taken place in England, Scotland, and Ireland, during the ten preceding years, in connexion with the making and uttering of base coin, and in connexion with the forging and uttering of forged notes. I hold that return in my hand. The result is that in England and Wales, during the ten years, the cases of prosecution in relation to coins numbered no fewer than 6,291, while the number of prosecutions in connexion with forged notes were only 1,866. Again, in Scotland, and here let it be borne in mind that the denomination of the notes in circulation is as low as *one pound*, and where the circulation consists almost exclusively of paper, the number of cases of prosecution in connexion with base coin was 570, while the number in connexion with forged notes was only 4. Again, in Ireland, where the lower denomination of notes also prevail, the number of cases of prosecution in connexion with coinage was 338, while in connexion with forged notes they were only 41. In the whole of the United Kingdom, the prosecutions in relation to base coins were 7,199 for the ten years, while those in connexion with forged notes were only 1,911. I think these returns conclusively show that the risk of counterfeit which attends any system of currency is by no means confined to Bank Notes. I believe I am right in saying that the attempts at counterfeiting coins in India are very rare and that prosecutions in relation to such crimes are not of frequent occurrence. No doubt the complicated machinery required for coining, and the great cost and skill necessary to make it, and the rareness of skilled artificers to work it, may be said to be one of the reasons why this class of crimes does not prevail in India—for we must bear in mind that it requires a large outlay of capital, and a large employment of the most ingenious skill (which so much abounds in England), to manufacture even counterfeit coins. But, Sir, if this difficulty has hitherto shielded the Indian public from the dangers of a base coinage, I think I shall be able to show that the steps we have taken will be even more perfect for shielding it from the evils of forged notes. Sir, we know well how expert some of the people in the East are in imitating hand-writing. I have heard of a case in which one of your predecessors, Sir—a former Chief Justice of Calcutta—was deceived on the Bench by the production of a document purporting to bear his own signature, and which turned out to be forged. We all know, too, the number of forged documents which are used in our Courts of law—an evil so common, that the Honorable Member for Madras has submitted to us a Bill, the avowed object of which is to check these proceedings. But be it observed that all these attempts are made in connexion with the hand-writing. I have not heard of a case where an attempt has been made to forge the stamp to a document. Sir, our precautions will consist altogether of those of a mechanical character embracing the use of machinery and scientific operations of the most refined character, but at the same time plain and palpable to the eye of the commonest observer. Sir, as soon as I had accepted Her Majesty's gracious appointment to the responsible office I now fill, my attention was at once turned to this most obvious reform in our Indian administration. I immediately put myself in communication with the Governor and Deputy Governor of the Bank of England, and the able and intelligent mechanical officers who have the sole management of the manufacture of the notes. And, Sir, on the part of the Government of India, I must here tender to those distinguished functionaries, and to their accomplished officers, our best thanks for the very effective aid which, as I shall immediately show you, they already have, and

are prepared still further to extend to us in this very important matter. Sir, it is no slight advantage in starting a new career in a matter of this important kind, to have behind us the aid and support of an experience in the most civilised country in the world of nearly two centuries. If there is one thing more than another with regard to which the British Parliament has, at all times, been ungrudging, it has been in extending to trade all the legitimate protection against fraud within its power, and to the Bank of England, as being the chief issuer of paper money, it has extended every possible security against forgery. It has, by law, given to that corporation the sole right to use paper manufactured in a particular way, and to use printing of a particular kind. But it is not so much on legal restrictions of this kind that the Bank of England relies. It is not upon the writing or printing of notes, for after the experience of many years, it has become a settled principle in the Bank of England, that the plainest and simplest form of notes is the one in which forgery is most easily detected, and that elaborate notes are most easily imitated. What the Bank of England chiefly relies upon for its protection is the paper which it uses, and the water-marks with which the paper is made. The paper is only made by one house, which is bound to supply the Bank of England alone, and admit no stranger to enter the premises. Well, Sir, whatever advantages the Bank of England enjoys under Acts of Parliament, or in the exclusive manufacture of paper, or in the monopoly of those water-marks, the Directors have generously consented to extend to the Government of India. They have gone further, and pending our preparations in India, they have consented to make notes for us. Sir, I hold in my hand a specimen note for ten rupees, which I received from the Governor of the Bank by a recent Mail. The paper of which contains water-marks similar to the notes of the Bank of England, with the variation only of the words. This specimen has in the water-mark the words "Government of India" along the top of the paper. The word "Ten" in the centre, and the word "Rupees" below. Sir, that which the mechanical skill of England has proved unable successfully to imitate, we may rest satisfied will be secured from counterfeit in India, and the great advantage here is that the water-mark, as a test of a genuine note, is plain and visible to the eye of the most unlettered person. As a proof of the great perfection which the system has reached in the Bank of England, I may mention a very striking fact. It will have been observed that each Bank of England note has inscribed a number with two capital letters attached. If that number, with the two letters, were cut out of a note and all the rest of it destroyed, so perfect is the system, that on presenting that small remnant of the note, the Bank would be able to say whether the note has been paid or not, what the amount of the note was, and the date and place of its issue—and upon this relict alone they would be content to pay the note, of course taking security that the remainder would not be presented. Sir, it is with all the advantages of a system so perfected, and with the hearty aid and co-operation of the Directors of the Bank of England, that we shall introduce the system of a Paper currency into India. I may here add that the denomination of each note will appear on the face of it, not only in English, but also in the two languages most in use by different classes in the districts where they will circulate. In addition to these securities, the Bill which I now ask to introduce will contain provisions similar to those of the English law, for the punishment of those who may attempt fraudulent imitations.

Sir, I have now, I fear at much too great a length, but it was needful that I should make myself clear upon a subject with respect to which any misapprehension might prove very prejudicial, explained the broad outlines of our measure. We propose to have a paper note circulation of denominations, varying from five rupees up to one thousand rupees, to be issued at the Presidency Towns and at the centres of circles or districts mapped out for this purpose; that they shall be payable in coin at the centre where they are issued and in the Presidency Towns to which the circle belongs, that they shall be receivable by the Government for all claims of whatever kind, that they shall be a legal tender between man and man in the settlement of every claim, that they shall be issued only in exchange for coin or bullion, that a certain fixed proportion of bullion and coin shall always be



kept in hand to secure the convertibility of the notes, and that public securities shall be held in the Issue department for the full amount of the difference

But, Sir, there is one very important point to which I must now refer. We have at the present time three Banking Corporations in India, in each of which the Government may be said to be a partner. The Government hold shares in each, and is fully represented in the Direction. Those corporations issue notes, but they are not a legal tender, nor do they circulate much beyond the Presidency Towns, nor are they received without limit into the Government Treasuries. Now, Sir, even if it were desirable, it must be plain that such notes could not circulate along with the Government notes, which I have described as a legal tender. The Charter under which these respectable Banks exist are subject to revision at any time on twelve months' notice being given. It must be plain that such a system as I have very inadequately attempted to describe should be general and universal over India to secure all the advantages which it is calculated to confer. Sir, then we have decided to give the necessary notice to enable us to modify those Charters. But I must here say that the Government feel that those Banks have conferred a great benefit upon India, and that they will deserve every consideration consistent with the public interest at our hands, and I trust that we may fall upon some plan which, without involving any sacrifice on the part of the public may compensate, at least in some degree, those Banks for the privilege which they have so long enjoyed, and which I have never heard them accused of abusing. Sir, I think we shall find when we come to look at those Charters that they unnecessarily restrict their operations, and that we may also find that we may confer upon them new functions equally for the benefit of themselves and the State. In conferring advantages upon the public it is our desire to deal as tenderly with private interest as is consistent with the great objects we have in view.

Sir, in the early part of my observations I referred to the fact that the precious metals, to whatever extent they are employed for the mere purpose of coin in circulation, are really an abstraction to that extent from the real reproductive capital of the country, and I wish now to show in what way the measure which we propose will operate in restoring this capital to reproductive channels. Independent of all the advantages which will accrue to the country by the adoption of a sound Paper currency, that which I am about to describe is most important, if not the most important of all, however less apparent it may be at first sight. I have already shown you by what process the Government would become possessed of a large share of the securities representing the debt of the State, by employing a portion of this coin, withdrawn from circulation and replaced by notes, in the purchase of such securities. But, Sir, it will be plain that to whatever extent the Currency Commissioners become purchasers of public stock there must be sellers to the same extent, to whom the surplus coin would be paid. Those persons would not permit their capital so relieved from one investment to remain idle, but would naturally seek other profitable modes of using it. To this extent capital would be more abundant, competition for its employment would be greater, and the tendency would be, to use a familiar phrase, for money to become cheaper. No doubt the first tendency would also be for silver to fall in price as it became released from the circulation, the first effect of which would be to lead to its exportation to any country where the merchant found it would yield a profit, and by this operation the equilibrium of value would be instantly restored. In short, to abstract so much coin from the mere mechanical purpose of the circulation, supplying its place with convertible paper, would be exactly the same in effect, as if suddenly, in the centre of the Midan, a rich silver mine had been discovered, and which produced silver at little or no cost. The first operation would be to lead to an export of that silver in exchange for articles of various descriptions which were really in demand, and by which means to the full extent the real wealth of the country and the aggregate amount of its reproductive capital would be increased. Mr Ricardo, in his able pamphlet upon "The High Price of Bullion," published in 1811, has so admirably illustrated this point, that I trust you will permit me to read an extract from it.—

*Extract from the works of D Ricardo, Esq, "The High Price of Bullion"\**

If a mine of gold were discovered in either of these countries, the currency of that country would be lowered in value, in consequence of the increased quantity of the precious metals brought into circulation, and would therefore no longer be of the same value as that of other countries. Gold and silver, whether in coin or in bullion, obeying the law which regulates all other commodities, would immediately become articles of exportation, they would leave the country where they were cheap for those countries where they were dear, and would continue to do so as long as the mine should prove productive, and till the proportion existing between capital and money in each country before the discovery of the mine were again established, and gold and silver restored everywhere to one value. In return for the gold exported, commodities would be imported, and though what is usually termed the balance of trade would be against the country exporting money or bullion, it would be evident that she was carrying on a most advantageous trade, exporting that which was in no way useful to her, for commodities which might be employed in the extension of her manufactures and the increase of her wealth.

If, instead of a mine being discovered in any country, a Bank were established, such as the Bank of England, with the power of issuing its notes for a circulating medium, after a large amount had been issued either by way of loans to merchants or by advances to Government, thereby adding considerably to the sum of the currency. The same effect would follow as in the case of the mine. The circulating medium would be lowered in value, and goods would experience a proportionate rise. The equilibrium between that and other nations would only be restored by the exportation of part of the coin.

The establishment of the Bank, and the consequent issue of its notes, as well as the discovery of the mine, operate as an inducement to the exportation either of bullion or of coin, and are beneficial only in as far as that object may be accomplished. The Bank substitutes a currency of no value for one most costly, and enables us to turn the precious metals (which, though a very necessary part of our capital, yield no revenue) into a capital which will yield one. Dr A. Smith compares the advantages attending the establishment of a Bank to those which would be obtained by converting our highways into pastures and cornfields, and procuring a road through the air. The highways, like the coin, are highly useful, but neither yield any revenue. Some people might be alarmed at the specie leaving the country, and might consider that as a disadvantageous trade which required us to part with it, indeed, the law so considers it by its enactments against the exportation of specie, but a very little reflection will convince us that it is our choice and not our necessity that sends it abroad, and that it is highly beneficial to us to exchange that commodity which is superfluous for others which may be made productive. The exportation of the specie may at all times be safely left to the discretion of individuals, it will not be exported more than any other commodity unless its exportation should be advantageous to the country. If it be advantageous to export it, no laws can effectually prevent its exportation. Happily in this case, as well as in most others in commerce where there is free competition, the interests of the individual and that of the community are never at variance.

Sir, it is by this process that the capital, which is now unprofitably employed in this country to a great, and I will add so rapidly an increasing extent, will be by the most legitimate means released and restored to the channel of reproductive uses. I may be asked to what extent we expect by this means to economise capital? Sir, that is a point upon which I am not prepared to hazard a speculation, but if we take into account the fact that in the last twenty-four years silver, to the extent of one hundred crores of rupees, or one hundred millions of pounds sterling, has been coined, and that the demand for coin has increased so rapidly, that in the last four years silver, at the rate of nearly twelve crores of rupees, or twelve millions of pounds sterling, has annually been coined, we must arrive at the conclusion that ultimately the amount will be very large. No doubt the introduction of the system must be slow and gradual at first—the time required to establish the necessary machinery and appliances will lead to this—but I regard this limit upon our efforts rather as an advantage than otherwise, because it will afford time for people to become familiar with the system before it assumes large dimensions. Our attention will be first directed to the Presidency towns, from which the system will be gradually extended into the Mofussil until it has permeated over the whole of India.

Before I conclude there are three subjects of a somewhat kindred character to which I would wish shortly to refer. The first has reference to a question which has been much discussed by capitalists in England as well as in India. I refer to the proposals which have been made for the purpose of establishing upon a large scale, and with an adequate capital, a national Banking establishment capable of gradually embracing the great Banking operations in India, and of extending its Branches to the interior trading cities as opportunity might offer. That there is a growing want for such an institution and a rapidly increasing field for its operations no one can doubt. The Government is, therefore, desirous to be understood that

\* Pages 4-6 of the Fourth Edition, published by Mr. John Murray, 1811

the plan which has been adopted for the introduction of a legal tender paper currency is not intended in any way to discourage or to interfere with such a project, the operations of which would be those of legitimate Banking transactions in India and exchange operations abroad. The second is the subject of economising our cash balances and the great cost to which we are now put by retaining all our cash in our own Treasuries, and disbursing every payment in hard coin. This system has been abolished in England for more than half a century, and the far more convenient and economical form of a Bank account has been resorted to. Sir, this subject engages the earnest attention of the Government. The third and last point to which I wish to allude is the extremely defective condition of our copper coinage. During my journey up the country there was no complaint which was so common amongst the lower classes than the sacrifice they had to submit in the native bazars in getting copper change, absolutely needful for their scale of expenditure. It is not too much to say that the poorest of the people have been taxed as much as five, and in some cases ten per cent upon their little incomes from this cause. Sir, I hope we shall take care, in future, to provide against this evil. A large importation of copper coin, to the extent of ten lakhs of rupees, has been ordered from England, a new mint for copper coin alone may shortly be expected at this place, and another is ordered for Bombay, and we trust that the well-founded complaints on this head will soon cease to exist.

Sir, I have now laid before you the plan which the Government has devised as the best adapted for India for conferring upon it the great advantages of a perfect system of currency. As I said before, we have aimed at no novelty, our effort has been to adapt to our own circumstances principles which the wisdom of great men has defined and laid down with philosophical accuracy and practice, which the experience of the most enlightened commercial countries has approved. Sir, these are subjects which have engaged the attention of intellects of the highest order in modern times. Newton and Locke and Adam Smith applied their most profound researches to these subjects. In this present century they have, perhaps, more than any other branch of political science, absorbed the attention of able and acute minds—eminent men like Horner, Huskisson, Lord Liverpool, Ricardo, Tooke, Sir Robert Peel, Lord Overstone, and Norman have brought to this important subject the greatest power of mind and the largest experience. Then we have had Parliamentary Committees almost without number, we had the Bullion Committee in 1811, the Committee on the Resumption of Cash payments in 1819, presided over by Sir Robert Peel, then we had the Committee on the Bank Charter in 1831, next the Committee on Banks of Issue in 1840 and 1841, presided over in a most able manner by the present Secretary of State for India, Sir Charles Wood, then we had the Commercial Distress Committee of 1848, then the Bank Charter Committee of 1857, and, lastly, the Committee of 1858—of the last three of which I had the advantage of being a member. Well, Sir, it is upon accumulated evidence such as this that we feel that we may, with confidence, proceed, it is to such accumulated and high authority, as I have recounted, that we feel we may safely defer. And in doing so, there is this great advantage, that, however diversified the authorities I have quoted may be, however much some of them may have differed upon minor points, yet upon that which I have laid down as the great cardinal rule to be observed, all are agreed. Among all there is but one opinion, that, in order to constitute a sound currency of mixed coin and paper, there are three great essential conditions—*First*, that you should have one single standard of value, whether it be gold or silver, *second*, that the paper shall be at all times convertible into the coin it represents, and, *thirdly*, that a sufficient reserve of bullion shall be maintained in order to provide for that convertibility. Sir, all are agreed in regarding these three conditions as the sheet anchor of a sound currency; and it is upon these conditions that the measure I am about to introduce has been carefully framed. We know, Sir, that nothing that lies in our power can altogether prevent the recurrence of vicissitudes in trade, but we believe that sound and wise laws will, at least, moderate the severity of otherwise unavoidable misfortunes, while bad laws would infallibly aggravate them. Sir, we have done our best in adapting

these great principles to the peculiar circumstances of this country, and now it will become our first duty to give practical effect to the measures which we propose, by the gradual extension to the whole of India of the system I have described, in the confident belief that it will confer advantages of no slight description and will tend to promote the happiness of India by adding to its material property and wealth.

Mr Wilson concluded by moving the first reading of a Bill for the introduction of a system of Paper Currency.

Sir Bartle Frere seconded the Motion, which was then put and carried, and the Bill read a first time.

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## APPENDIX XI.

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### MEMORANDUM, STATEMENTS, AND SUPPLEMENTARY STATEMENTS ON THE PLACING OF CASH BALANCES ON LOAN OR DEPOSIT, SUBMITTED BY MR. WALTER BADOCK, C.S.I., ACCOUNTANT-GENERAL AT THE INDIA OFFICE

1 The system of placing surplus cash balances on temporary loan was inherited from the East India Company, having been apparently initiated by a minute of the (Secret) Finance and Home Committee, dated 6th December 1838. The practice has been followed from that time until now. The present procedure follows various orders approved by the Secretary of State in Council in minutes and letters to the Bank of England and to the Broker, for the time being, to the Secretary of State. Copies of the last three letters to the Bank and the Broker are appended (*see* pages 312-4).

#### *The approved Borrowing List*

2. Loans on security are made to certain bankers, discount houses, stock-brokers, &c., of high standing, whose names appear on an approved borrowing list (pages 315-6). Admission to that list is obtained by application addressed to the Broker, who communicates the application to the Accountant-General. The necessary enquiries are made by the Chairman of the Finance Committee, this part of the work being regarded as particularly his province in view of the special City knowledge possessed by him. Until recently, if the enquiries have proved satisfactory, the name of the applicant firm has been temporarily accepted by him, and he has also intimated to the Accountant-General any limit to be imposed on the amount to be advanced to the firm. The full Borrowing List showing the limits imposed has been submitted quarterly to the Finance Committee. The present practice, however, is to lay the applications, with such information as can be obtained, before the Finance Committee and the Secretary of State in Council, whose approval is signified before any loan is made. The full Borrowing List is submitted quarterly to the Secretary of State in Council as before.

#### *Amount and Period of Loans*

3 Loans are made in sums of 50,000*l.* or in multiples of 50,000*l.* The usual periods are from three to five weeks, or occasionally six weeks, according to the Accountant-General's calculations as to the term within those limits for which the money can conveniently be spared.

4 In fixing the period, the Accountant-General is guided by the fact that the weekly sales of Council Bills, which are the main source of the money in charge of the India Office, may at any time be reduced to a small figure if the exchange shows a tendency to fall away, or may even cease altogether, as has happened more than once, also that payment for the Bills sold on or after a

Wednesday may be postponed at the option of the purchaser to any day up to the following Tuesday. Similarly, receipts in respect of issues of Government Stock, or of new railway capital which may have been estimated in the Budget, and which form the second important head of receipts, cannot be relied upon as certainly available on any specific date until the issue has actually taken place, and such issues are dependent on market conditions, of which a forecast cannot be made with certainty. On the other hand, the Government of India have very large commitments for interest, annuities in purchase of railways, pay, pensions, &c., in this country, which have to be met on specific dates, and have also very large payments to make for stores for India, advances to railway companies, and other miscellaneous services, the dates for payment of which cannot be accurately foreseen. To provide for payments in the immediate future, therefore, dependence is placed on a sufficiency of loans, arranged to mature on each business day of the year. It is not the practice to lend for as long as six weeks, even if a higher rate of interest might be obtained by so doing, until all probable requirements in the interval have been fully provided for. Under this system, therefore, the whole balance, except the deposits referred to hereafter, can be made available in not more than six weeks.

*Securities authorised for Acceptance*

5 India Debentures, India Bonds, and Guaranteed Debentures of the several Indian Railway Companies, are taken at their par value.

Treasury Bills, Exchequer Bills, Exchequer Bonds, India Sterling Bills, Metropolitan Water Board Bills, and London County Bills are accepted at their market value, instead of their nominal amount.

The following securities are accepted at their minimum market value, with a cover of 5 per cent, the cover being replaced if the value of the security falls during the currency of the loan.—

Any of the Parliamentary Stocks or Annuities of the United Kingdom  
India  $3\frac{1}{2}$  per cent, 3 per cent or  $2\frac{1}{2}$  per cent Stock, and Stock  
Certificates

India Enfaced Rupee Paper

Fully-paid Debenture Scrip of the Indian Guaranteed Railway Companies

Any securities, the interest on which is, or shall be, guaranteed by Parliament

Metropolitan Consolidated Stocks and Stock Certificates.

Metropolitan Police 3 per cent Debenture Stock

Metropolitan Water Board "B" Stock, and Stock Certificates

London County Consolidated Stocks, Stock Certificates and Scrip

Corporation of London Debentures

Bonds or Bills of Colonial Governments that have observed the conditions prescribed in the Colonial Stock Act 1900, 63 & 64 Vict c 62, and of British Municipalities with a population of 500,000 or upwards (at present Birmingham, Liverpool, Manchester, and Glasgow), provided that in each case there is an obligation to repay the principal of the bond or bill within a period not exceeding five years from the date on which the loan is granted (See letters dated 15th April 1913 on page 314)

Statement No 1 is appended classifying the securities held in respect of loans on 31st March, 30th June, 30th September, and 31st December 1912, and on 31st March 1913

*Instructions to Broker*

6 The Accountant-General informs the Broker daily of the amount of loans that may be renewed on fresh terms, of the amount of new loans that may be made, or of the amount of loans that must be called. He also furnishes the dates for the maturity of the renewals, and new loans. The Broker is responsible for obtaining the best possible rate of interest under the conditions assigned to him, viz —

(1) That he is limited to certain dates

(2) That his range of clients is limited to firms on the approved Borrowing List

(3) That he should only accept certain specified securities of a very high class, already enumerated,

7 In any case of difficulty as to interest, the Broker obtains the advice of the Chairman of the Finance Committee. The Broker's remuneration for this work has, since 1888, been a percentage on interest earned in each financial year. Until 1st July 1911 a commission of 5 per cent on interest earned on loans on security was paid, and one per cent on interest on deposits with banks. But the terms were then reconsidered by the Secretary of State in Council, and a new arrangement was made by which  $2\frac{1}{2}$  per cent on interest earned on loans on security is paid up to a maximum of 5,000*l.* in any financial year, and  $1\frac{1}{4}$  per cent thereafter, one per cent on interest on deposits with banks being payable as heretofore. The Broker has thus every inducement to obtain the best possible terms for India Office loans.

8 I append Statement No 2 showing for the past 20 years the gross interest earned on short loans of Treasury and Gold Standard Reserve Balances, the Broker's commission and the net interest.

#### *Method of Payment of Loans.*

9 The cheque, termed a "write-off," which authorises the transfer of the amount of each loan to the account of Mr Horace H Scott, the Broker, at the Bank of England, and which is signed and countersigned in accordance with the provisions of 22 and 23 Vict, c 41, s 3, is worded as follows —

"Credit Mr Horace H Scott, either upon the recognised Securities being transferred to the Stock Account of the Secretary of State in Council of India, or upon the receipt of such Securities to be held by the Bank for account of the Secretary of State in Council of India."

10 Consequently the Bank of England does not place the amount of the loan to the account of Mr Scott until it is in possession of the requisite securities on behalf of the Secretary of State, which are examined by the Bank in accordance with standing instructions received from this Office. (See letters on pages 312-14.) As evidence of the transfer of stock to the Stock Account of the Secretary of State in Council of India (constituted under 21 and 22 Vict, c 106, s 45), Mr. Scott transmits to the Accountant-General, together with the agreement for the loan, signed by the borrower, stock receipts for the amount of stock specified in the agreement. The Form of Agreement in use was originally drawn up by the Legal Adviser to this Office, and has, with minor alterations approved by him, been in the same form since 1861. A copy is appended (see pages 314-15).

11 Securities transferable by delivery are entered by the Bank of England in the Secretary of State's Security Pass Book, which is obtained from the Bank on the morning following each loan, and is examined in the Accountant-General's Department.

12 When a loan is paid off, the stock that has been transferred to the Secretary of State's account as security is re-transferred "into such names and in such amounts as Mr Horace H Scott, the Broker, may direct" (i.e., on account of the borrowers), under the General Letter of Attorney granted to the Bank under the provisions of 21 and 22 Vict, c 106, s 47. The Bank acts under the Power of Attorney upon a direction prepared by the Accountant-General and signed by two Members of Council, and countersigned by the Under Secretary or Assistant Under Secretary of State.

#### *Audit.*

13 On the last day of each month, the Bank of England transmits to the Auditor of the Home Accounts a statement showing the amount of Stock of each description standing in the Secretary of State's account, and the amount of bearer securities held by the Bank on behalf of the Secretary of State. Every agreement with a borrower is shown to the Auditor, and the accuracy of all transactions arising out of it is tested in his Department.

*Deposits.*

14 It is found that the Broker is usually unable to lend on security to approved borrowers on the existing borrowing list a larger sum than from 10,000,000*l.* to 11,000,000*l.*, and in 1909, 1910, 1911, and portion of 1912, the surplus balance available in excess of that amount was placed on deposit with certain London banks by the Broker, after consultation in each case with the Chairman of the Finance Committee. In such cases, the deposit was usually for a period not exceeding two months, but sums lent in this way on account of the Gold Standard Reserve were sometimes placed for three months, if it seemed advantageous to do so, for it was not considered probable that they would be required before the expiration of that period. The balances were, however, so largely reduced in the summer and autumn of 1912 by the purchases of silver and the discharge of temporary debt that deposits as they matured were all called in, the last having been called on 21st December.

*Reliability of System*

15 It may be mentioned that, whereas in the last twenty years the interest earned on short loans and deposits has amounted to 2,637,015*l.* (see Statement No 2), and in recent years the number of transactions has averaged 1,500 a year, excluding exchanges of stock, the sums lent have always been available, with the interest, on the dates specified in the agreement, with two exceptions only, these were cases of firms holding loans of 50,000*l.* each. In one case the whole of the principal money, and the interest due, were recovered, in the other, a small loss of principal was counterbalanced by the high rate of interest on securities held until realisation.

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LAST THREE INSTRUCTIONS TO BANK OF ENGLAND  
AND TO THE BROKER

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India Office, Whitehall, S W,  
16th June 1893

Gentlemen,

The attention of the Secretary of State for India in Council has been drawn to the circumstance that the list, furnished to you in the letter from this Office dated the 25th February 1881, of the securities which may be accepted in respect of loans made on his behalf by Mr Scott, the broker to this Office, requires modification.

I am accordingly directed to acquaint you that Exchequer Bills, Exchequer Bonds, Treasury Bills, India Debentures, and Guaranteed Debentures of the several Indian Railway Companies, may be accepted at their par value, and the following securities at their minimum market value with a cover of five per cent viz —

Any of the Parliamentary Stocks or Annuities of the United Kingdom

India 3½ or 3 per cent Stock

India Enfacéd Rupee Paper

Any Securities the Interest of which is or shall be guaranteed by Parliament

Consolidated Stock created by the Metropolitan Board of Works, or by the London County Council, or Debenture Stock created by the Receiver for the Metropolitan Police District

I am,

Gentlemen,

Your obedient Servant,  
A. GODLEY.

The Governor and Company of the  
Bank of England, E C

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India Office, Whitehall, S W ,  
16th June 1893.

Sir,

I am directed by the Secretary of State for India to transmit to you a copy of a letter which has this day been sent to the Governor and Company of the Bank of England, regarding the securities which may be accepted in respect of loans made on behalf of this Office

You will observe that in that letter it is stated that Treasury Bills may be accepted at their par value, but I have to point out that this is not intended to interfere with the practice of recent years, according to which you have accepted them at their market value only, instead of their nominal amount, when their unexpired period has seemed to you to call for it

I am,  
Sir,  
Your obedient Servant,  
A GODLEY

Wille A W Scott, Esq.,  
57, Old Broad Street, E C

India Office,  
26th February 1913

Gentlemen,

The attention of the Secretary of State for India in Council has been drawn to the circumstance that the list furnished to you in the letter from this Office dated the 16th June 1893, of the securities which may be accepted in respect of loans made on his behalf by the broker to this Office, requires modification

I am accordingly directed to acquaint you that India Bonds, India Debentures (when any are existent), and Guaranteed Debentures of the several Indian Railway Companies may be accepted at their par value Treasury Bills, Exchequer Bills, India Sterling Bills, Metropolitan Water Board Bills, Exchequer Bonds, and London County Bills may be accepted at their market value

The following Securities may be accepted at their minimum market value, with a cover of 5 per cent, viz —

Any of the Parliamentary Stocks or Annuities of the United Kingdom  
India 3½, 3, or 2½ per cent Stock and Certificates  
India Enfacéd Rupee Paper  
Guaranteed Debenture Scrip (fully paid) of Indian Railway Companies  
Any Securities the interest of which is or shall be guaranteed by Parliament  
Metropolitan Consolidated Stocks and Certificates  
Metropolitan Water Board " B " Stock and Certificates  
Metropolitan Police 3 per cent Debenture Stock  
London County Consolidated Stocks Certificates, and Scrip  
Corporation of London Debentures

I am, Gentlemen,  
Your obedient Servant,  
T W HOLDERNESS

The Governor and Company of  
the Bank of England.



India Office,  
26th February 1913

Sir I am directed by the Secretary of State for India in Council to transmit to you for your guidance a copy of a letter which has this day been sent to the Governor and Company of the Bank of England regarding the securities which may be accepted in respect of loans made on behalf of this Office

I am, Sir,  
Your obedient Servant,  
T. W. HOLDERNESS.

Horace H Scott, Esq

India Office,  
15th April 1913

Gentlemen,  
In continuation of the letter from this office dated 26th February 1913 A G, I am directed to inform you that the Secretary of State for India in Council has added the following securities to the list of those which may be accepted against loans granted on his behalf by the broker to this office, bonds or bills of Colonial Governments that have observed the conditions prescribed in the Colonial Stock Act, 1900, 63 and 64 Vict c 62, and of British Municipalities with a population of 500,000 or upwards, provided that in each case there is an obligation to repay the principal of the bond or bill within a period not exceeding five years from the date on which the loan is granted. A margin of 5 per cent over the market value should be required in the case of the above classes of security.

\* At present Birmingham, Liverpool, Manchester, Glasgow

I am, Gentlemen,  
Your obedient Servant,  
LIONEL ABRAHAMS

The Governor and Company of  
the Bank of England

India Office,  
15th April 1913

Sir, I am directed to acknowledge the receipt of your letter of the 26th February 1913, on the subject of enlarging the classes of securities which may be accepted as securities for loans, and in reply to enclose for your guidance a copy of a letter which has this day been addressed to the Governor and Company of the Bank of England

I am, Sir,  
Your obedient Servant,  
LIONEL ABRAHAMS

Horace H Scott, Esq

Sixpenny  
Embossed  
Stamp

COPY OF FORM OF AGREEMENT FOR LOAN

LONDON,

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To the Right Honourable

The Secretary of State in Council of India

\_\_\_\_\_ request that you will advance to \_\_\_\_\_ the sum of \_\_\_\_\_ pounds on the under-mentioned Securities or any other Securities which by consent may be substituted therefor, which Advance \_\_\_\_\_ engage to repay on the \_\_\_\_\_ together with Interest at the rate of \_\_\_\_\_

£ \_\_\_\_\_ per Cent per Annum In case the said Securities should not be redeemed on the said \_\_\_\_\_ hereby authorize you to sell the same, and, so far as the proceeds of sale will allow, to repay your Advance thereon with Interest, and \_\_\_\_\_ further engage that in the event of any of the said Securities upon which a cover of 5 per Cent has been or may be given falling in value before the repayment of this Loan to an extent which shall render their value less than 5 per Cent above the amount advanced against them \_\_\_\_\_ will forthwith, on application on your part, add to the Securities so as to maintain the stipulated cover of 5 per Cent, and in default of \_\_\_\_\_ so doing \_\_\_\_\_ hereby authorize you to sell immediately all the Securities accepted in respect of this Advance, and to repay the Advance with all Interest then due, so far as the proceeds of sale will allow, and \_\_\_\_\_ hereby undertake to repay any deficiency which the proceeds of sale may fail to discharge

The Securities above referred to are

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*N B*—In consequence of the decision of the Judicial Committee of the Privy Council in the matter of Sir Stuart Samuel's seat in Parliament the following note is now printed on forms of agreement for loans —

The attention of firms applying for advances is drawn to the following extract from 22 George III, Chapter 45, Section 10 "In every such contract, agreement or commission [that is, in every contract, agreement or commission, for or on account of, the public service] to be made, entered into or accepted as aforesaid, there shall be inserted an express condition that no Member of the House of Commons be admitted to any share or part of such contract, agreement or commission or to any benefit to arise therefrom." The Statute does not apply to contracts, &c, entered into by incorporated trading companies in their corporate capacity (*see* Section 3)

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FIRMS ON THE BORROWING LIST APPROVED BY THE SECRETARY OF STATE  
IN COUNCIL ON 31ST MARCH 1913

Alexanders and Company, Limited  
Allen, A J, and Son  
Allen, Harvey and Ross  
Anglo-Egyptian Bank, Limited  
Anglo-Foreign Banking Company, Limited  
Baker, Duncombe, and Company, Limited  
Barclay and Company, Limited  
Biedermann, A, and Company  
Blydenstein, B W, and Company  
Booth and Partridge  
Bouke, Cuthbertson, and Company,

FIRMS ON THE BORROWING LIST APPROVED BY THE SECRETARY OF STATE  
IN COUNCIL ON 31ST MARCH 1913—*continued*

Brightwen and Company  
Bristowe and Head  
Capel, J , and Company  
Chartered Bank of India, Australia, and China  
Cohen, Laming, and Company  
Cunliffe, R , Sons, and Company  
Daniell and Daniell  
De Zoete and Gorton  
Eastern Bank, Limited  
Elles, J , and Son  
Francis and Praed  
Gillett Brothers and Company  
Haarbleicher and Schumann  
Halford, W , and Company  
Hohler and Company  
Hong Kong and Shanghai Banking Corporation  
Hopkins and Giles  
Keyser, A , and Company  
King and Foà  
Laurie, Milbank, and Company  
Lazard Brothers and Company  
Lloyd and Norbury  
London County and Westminster Bank, Limited  
London and South-Western Bank, Limited  
Lyon and Tucker  
Matthey, Harrison, and Company  
Mercantile Bank of India, Limited  
Messel, L , and Company  
Mullens, Marshall, and Company  
National Bank, Limited  
National Bank of India, Limited  
National Bank of New Zealand, Limited  
National Discount Company, Limited  
National Provincial Bank of England, Limited  
Panmure Gordon and Company  
Pember and Boyle  
Price Brothers  
Provincial Bank of Ireland, Limited  
Reeves, Whitburn, and Company  
Rowe and Pitman  
Ryder, Mills, and Company  
Samuel Montagu and Company  
Scrimgeour, J and A  
Sheppards and Company  
Sherwood, H , and Company  
Smith, St Aubyn, and Company  
Steer, Lawford, and Company  
Tomkinson, Brunton and Company  
Union Discount Company of London, Limited  
Waley and Wilbraham  
Wedd, Jefferson, and Company

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STATEMENT No 1  
Securities held for Loans from Cash Balances on certain dates

Description of Security	31st March 1912	30th June 1912	30th September 1912	31st December 1912	31st March 1913
<b>STOCK INSCRIBED ON BOOKS OF BANK OF ENGLAND</b>					
	£	£	£	£	£
Annuities 2½ per cent Stock - - -	—	5,000	—	—	—
2½ per cent Consolidated Stock - - -	856,000	1,083,700	942,700	162,500	302,500
Corporation of London 3½ per cent Stock - - -	10,000	10,000	10,000	—	10,000
Guaranteed 2½ per cent Stock - - -	148,000	393,500	89,000	49,000	213,000
3 per cent Stock - - -	—	10,000	—	—	—
India 3½ per cent Stock - - -	173,000	244,000	219,000	10,000	85,000
" 3 per cent Stock - - -	114,200	163,700	195,200	100,000	197,000
" 2½ per cent Stock - - -	51,000	188,000	127,000	171,000	35,000
Local Loans 3 per cent Stock - - -	52,000	48,000	38,000	—	—
London County 3 per cent Consolidated Stock -	2,000	39,000	—	15,000	15,000
" County 2½ per cent Consolidated Stock -	170,000	150,000	59,000	58,000	24,000
Metropolitan Consolidated 3 per cent Stock -	4,000	—	—	—	—
" Consolidated 2½ per cent Stock -	—	9,000	—	—	—
" Water Board "B" 3 per cent Stock -	—	—	7,000	—	—
Transvaal Government 3 per cent Guaranteed Stock, 1923/53	223,500	—	—	—	72,000
Transvaal Government 3 per cent Guaranteed Stock, 1958	133,000	214,000	68,000	44,000	23,000
	1,936,700	2,557,900	1,754,900	609,500	976,500
<b>BEARER SECURITIES HELD BY BANK OF ENGLAND</b>					
Indian Railway Debentures —					
Assam-Bengal Railway - - -	485,700	621,300	681,700	636,500	582,600
Bengal-Nagpur Railway - - -	2,243,000	1,921,000	2,340,000	1,742,100	1,524,400
Indian Midland Railway - - -	859,200	615,500	668,000	503,000	430,400
Madras Railway - - -	40,000	20,000	15,000	15,000	55,000
Madras and Southern Mahratta Railway -	325,200	545,300	769,300	530,000	477,000
Rohilkand and Kumaon Railway - - -	25,000	20,000	25,000	15,000	25,000
South Indian Railway - - -	445,000	425,000	755,000	765,000	586,000
Southern Mahratta Railway - - -	80,000	20,000	20,000	10,000	5,000
Canada Guaranteed Bonds - - -	6,000	1,000	14,500	46,000	47,000
2½ per cent Consolidated Stock Certificates -	912,300	774,000	828,500	1,183,500	1,166,600
Corporation of London Debentures - - -	15,000	19,000	58,000	44,000	31,000
Corporation of London Stock Certificates -	38,000	31,000	6,000	6,000	17,000
Egyptian Guaranteed Bonds - - -	201,700	208,200	272,600	304,900	222,200
Exchequer Bonds - - -	652,400	179,400	407,200	554,700	574,700
Greek Guaranteed Bonds - - -	—	800	—	—	—
Guaranteed 2½ per cent Stock Certificates -	203,700	169,000	76,900	82,200	109,200
" 3 per cent Stock Certificates - - -	5,000	5,000	6,500	38,500	38,500
India Bills - - -	338,000	92,000	55,000	—	—
India Stock Certificates - - -	1,033,900	1,041,300	1,102,800	1,233,500	922,500
India Bonds - - -	531,400	699,400	652,600	547,300	412,300
Local Loans Stock Certificates - - -	30,000	10,000	75,300	109,100	86,000
London County Bills - - -	29,000	—	30,000	65,000	100,000
London County Stock Certificates - - -	96,600	63,300	88,400	120,600	150,000
Metropolitan Consolidated Stock Certificates -	227,200	102,700	71,500	215,200	167,900
Metropolitan Water Board Bills and Stock Certificates - - -	136,500	133,500	243,000	50,500	598,000
Transvaal Government Guaranteed Stock Certificates - - -	416,500	365,000	312,000	374,000	218,100
Treasury Bills - - -	—	—	102,000	—	—
	9,376,300	8,082,700	9,676,800	9,191,600	8,546,400
India Rupee Paper - - -	Rs 9,60,000	Rs 6,62,000	Rs 14,29,000	Rs 23,35,000	Rs 39,87,000
At 1s 4d	£ 64,000	£ 44,133	£ 95,267	£ 189,000	£ 265,800
Total - - -	£ 11,377,000	£ 10,684,733	£ 11,526,967	£ 9,990,100	£ 9,788,700
Amount of Loans outstanding in respect of which the above Securities were held					
	£ 10,200,000	9,400,000	10,300,000	8,850,000	8,650,000

STATEMENT No 2

Showing the Gross Amount, and the Amount after deducting the Broker's Commission of, (a) Interest realised from the temporary investment of the Cash Balances of the Secretary of State for India, and of (b) Interest on Cash placed at short notice from the Balances of the Gold Standard Reserve not invested in Securities

Year	Treasury Balances						Gold Standard Reserve						Total		
	Short Loans			Deposits with Banks			Short Loans			Deposits with Banks			Gross Amount	Broker's Commission	Net Amount
	Gross Amount	Broker's Commission	Net Amount	Gross Amount	Broker's Commission	Net Amount	Gross Amount	Broker's Commission	Net Amount	Gross Amount	Broker's Commission	Net Amount			
1893-94	£ 10,293	£ 515	£ 9,778	£ —	£ —	£ —	£ —	£ —	£ —	£ —	£ —	£ —	£ 10,293	£ 515	£ 9,778
1894-95	3,373	169	3,204	—	—	—	—	—	—	—	—	—	3,373	169	3,204
1895-96	9,650	482	9,168	—	—	—	—	—	—	—	—	—	9,650	482	9,168
1896-97	34,435	1,722	32,713	—	—	—	—	—	—	—	—	—	34,435	1,722	32,713
1897-98	20,772	1,039	19,733	—	—	—	—	—	—	—	—	—	20,772	1,039	19,733
1898-99	30,562	1,528	29,034	—	—	—	—	—	—	—	—	—	30,562	1,528	29,034
1899-1900	51,384	2,569	48,815	—	—	—	—	—	—	—	—	—	51,384	2,569	48,815
1900-01	59,114	2,955	56,159	—	—	—	—	—	—	—	—	—	59,114	2,955	56,159
1901-02	79,651	3,983	75,668	—	—	—	—	—	—	—	—	—	79,651	3,983	75,668
1902-03	145,306	7,266	138,040	—	—	—	—	—	—	—	—	—	145,306	7,266	138,040
1903-04	140,038	7,002	133,036	—	—	—	—	—	—	—	—	—	140,038	7,002	133,036
1904-05	168,398	8,420	159,978	—	—	—	—	—	—	—	—	—	168,398	8,420	159,978
1905-06	218,185	10,909	207,276	—	—	—	—	—	—	—	—	—	218,185	10,909	207,276
1906-07	209,656	10,361	199,295	—	—	—	—	—	—	—	—	—	209,656	10,361	199,295
1907-08	137,698	6,596	131,102	—	—	—	—	—	—	—	—	—	137,698	6,596	131,102
1908-09	49,669	2,432	47,237	—	—	—	1,270	64	1,206	—	—	—	50,939	2,496	48,443
1909-10	128,163	6,336	121,827	8,326	83	8,243	8,550	428	8,122	11,640	116	11,524	156,679	6,963	149,716
1910-11	254,685	12,819	241,866	122,236	1,222	121,014	6,380	234	6,146	44,844	448	44,396	428,145	14,723	413,422
1911-12	*51,190	2,559	242,841	134,558	1,346	133,212	*162	8	485	34,025	340	33,685	418,838	8,615	410,223
1912-13	198,565	4,355	274,427	98,730	987	97,743	338	7	18,434	21,826	218	21,608	419,636	7,424	412,212
Total	2,281,122	99,925	2,181,197	363,850	3,638	360,212	35,445	1,052	34,393	112,335	1,122	111,213	2,792,752	†105,737	2,687,015

\* Total to 30th June 1911, after which date the rate of commission was 2½ per cent up to a maximum of 5 000l in any financial year, and 1½ per cent above 5 000l † Average for 20 years 5,287l per annum

STATEMENT No 3 showing the Balance and Cash transactions of the India Office for each day in 1912-13

EXPLANATORY NOTE

A.

During part of 1912-13 the India Office balance was held in three divisions, viz —

- 1 Money at Bank of England
- 2 Money lent on security to approved borrowers
- 3 Money deposited at interest with Banks other than the Bank of England

During the remainder of the year the balance was held in only two divisions, viz, money at Bank of England and money lent on security to approved borrowers. The change was due to a reduction of the total balance which made it possible to place with the approved borrowers the whole sum available for being lent at interest.

The following statement summarises the daily changes in the amount and form of the balance and the causes to which they were due.

It will be noticed that while the closing balance of each day (column 3) includes money on loan and deposit, the receipts and payments in columns 1 and 2, which account for the difference of the amount of each day's closing balance from that of the preceding day, do not include receipts due to the repayment of loans and deposits or payments due to their grant. The explanation is that the repayment or grant of a loan or deposit affects only the form but not the amount of the closing balance, since it involves merely a transfer from or to the second or third of the divisions shown above to or from the first division (money at Bank of England). The repayments and grants of loans and deposits are therefore shown separately in columns 7 to 10.

B.

With reference to column 4 it should be explained that an understanding exists with the Bank of England, believed to date from 1859, that (in order to remunerate the Bank for services for which no direct charge is made, such as the work done in connection with the sale of Council Bills and Telegraphic Transfers) the closing balance of each day shall be not less than 500,000*l*. The fact that the balance at the Bank usually exceeds 500,000*l*, as it did on each day in 1912-13, is due to the following causes.—

(1) The Bank requires that exceptionally heavy payments to be made on any day shall be provided for in the balance of the previous evening.

(2) Council Bills and Telegraphic Transfers sold on any day except Tuesday (when payment is required on the day of purchase) may be made at the option of the purchaser up to 4 o'clock on any day not later than the following Tuesday. The money is usually received at the Bank of England too late to be lent until the following morning. Similarly, the receipt at the Bank of England of money from other Government Departments is usually not known at the India Office until it appears in the Pass Book received there the next morning.

(3) The practice of granting all loans and deposits in sums of 50,000*l* or multiples thereof, sometimes causes the balance at the Bank of England to be higher than it would be if sums of less than 50,000*l* were lent.

(4) Some reserve in excess of 500,000*l* must be maintained to meet outstanding warrants, the date of presentation of which cannot accurately be foreseen.

STATEMENT No 3

Showing the Balance and Cash transactions of the India Office for each day in 1912-13  
(Including transactions of the Gold Standard Reserve, but excluding sums in the hands of Sub-Accountants)

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Date	Amount of Closing Balance and transactions affecting it			Form in which Closing Balance was held			Transactions affecting Form but not Amount of Closing Balance				Rate of Interest obtained on Loans granted and renewed
	Receipts, excluding Loans and Deposits repaid (1)	Payments, excluding Loans and Deposits granted (2)	Closing Balance (i.e. Money at Bank of England on loan, and on deposit with other Banks) (3)	At Bank of England (4)	On loan (5)	On deposit with other Banks (6)	Loans repaid (7)	Deposits repaid (8)	Loans granted (9)	Deposits granted (10)	
1912.	£	£	£	£	£	£	£	£	£	£	Per cent
31st March	—	—	19,416,692	1,351,692	10,200,000	7,865,000	—	—	—	—	—
Monday, 1st April	566,784	1,392,782	18,590,694	625,694	10,100,000	7,865,000	300,000	—	200,000	—	3
Tuesday, 2nd April	2,458	112,052	18,481,100	566,100	10,050,000	7,865,000	100,000	—	50,000	—	3
Wednesday, 3rd April	269,923	85,356	18,665,667	800,667	10,000,000	7,865,000	250,000	—	200,000	—	3
Thursday, 4th April	129,989	108,188	18,687,468	1,672,468	10,000,000	7,015,000	—	850,000	—	—	3
Saturday, 6th April	104,257	1,341,643	17,450,082	1,385,082	9,750,000	6,315,000	250,000	700,000	—	—	3
Tuesday, 9th April	14,338	1,025,778	16,438,642	573,642	9,800,000	6,065,000	50,000	250,000	100,000	—	3
Wednesday, 10th April	186,000	18,594	16,606,048	741,048	9,800,000	6,065,000	—	—	—	—	3
Thursday, 11th April	25,333	9,620	16,621,761	556,761	10,000,000	6,065,000	50,000	—	250,000	—	3
Friday, 12th April	183,836	128,444	16,677,153	562,153	10,050,000	6,065,000	150,000	—	200,000	—	3
Saturday, 13th April	224	23,359	16,654,018	539,018	10,050,000	6,065,000	—	—	—	—	3
Monday, 15th April	24,670	9,105	16,669,583	554,583	10,050,000	6,065,000	100,000	—	100,000	—	3
Tuesday, 16th April	9,088	173,151	16,505,520	540,520	9,900,000	6,065,000	200,000	—	50,000	—	3
Wednesday, 17th April	210,015	29,090	16,686,445	771,445	9,850,000	6,065,000	50,000	—	—	—	3
Thursday, 18th April	69,687	48,605	16,707,527	592,527	10,050,000	6,065,000	250,000	—	450,000	—	3
Friday, 19th April	197,259	19,873	16,884,913	569,913	10,250,000	6,065,000	100,000	—	300,000	—	3
Saturday, 20th April	7,026	27,760	16,864,179	549,179	10,250,000	6,065,000	50,000	—	50,000	—	3
Monday, 22nd April	17,836	25,915	16,856,100	541,100	10,250,000	6,065,000	50,000	—	50,000	—	3
Tuesday, 23rd April	2,611	12,596	16,846,115	531,115	10,250,000	6,065,000	150,000	—	150,000	—	3
Wednesday, 24th April	316,160	30,956	17,131,319	866,319	10,200,000	6,065,000	50,000	—	—	—	3
Thursday, 25th April	167,723	62,412	17,236,630	621,630	10,200,000	6,415,000	50,000	—	50,000	350,000	3
Friday, 26th April	169,819	63,919	17,342,530	627,530	10,300,000	6,415,000	—	—	100,000	—	3
Saturday, 27th April	15,582	6,235	17,351,877	636,877	10,300,000	6,415,000	100,000	—	100,000	—	3
Monday, 29th April	104,820	28,115	17,428,582	613,582	10,400,000	6,415,000	100,000	—	200,000	—	2
Tuesday, 30th April	22,677	2,060	17,449,199	734,199	10,300,000	6,415,000	200,000	—	100,000	—	2
Wednesday, 1st May	625,932	85,250	17,989,881	774,881	10,300,000	6,015,000	—	—	500,000	—	2
Thursday, 2nd May	259,256	25,966	18,223,171	558,171	10,300,000	7,365,000	—	300,000	—	750,000	2
Friday, 3rd May	906,838	50,700	19,079,309	664,309	10,300,000	8,115,000	—	—	—	750,000	2
Saturday, 4th May	126,786	127,960	19,078,135	563,135	10,100,000	8,415,000	200,000	—	—	300,000	2
Monday, 6th May	17,542	10,797	19,084,880	569,880	10,100,000	8,415,000	—	—	—	—	2
Tuesday, 7th May	30,890	21,142	19,094,628	529,628	10,150,000	8,415,000	—	—	50,000	—	2
Wednesday, 8th May	298,084	8,173	19,384,539	769,539	10,200,000	8,415,000	—	—	50,000	—	2
Thursday, 9th May	961	82,718	19,302,782	537,782	10,350,000	8,415,000	150,000	—	300,000	—	2

ROYAL COMMISSION ON INDIAN FINANCE

1906	Friday, 10th May	312,463	81,666	19,533,579	543,579	10,400,000	8,590,000	—	—	50,000	175,000	24
	Saturday, 11th May	139,651	14,547	19,658,683	568,683	10,400,000	8,690,000	—	50,000	—	150,000	24
	Monday, 13th May	24,888	29,814	19,653,757	613,757	10,350,000	8,690,000	200,000	—	150,000	—	24
	Tuesday, 14th May	59,430	25,791	19,687,396	647,396	10,350,000	8,690,000	—	—	—	—	24
	Wednesday, 15th May	221,198	464,064	19,444,530	754,530	10,000,000	8,690,000	400,000	—	50,000	—	24
	Thursday, 16th May	54,081	186,249	19,312,362	622,362	10,000,000	8,690,000	50,000	—	50,000	—	24
	Friday, 17th May	210,023	45,828	19,476,557	586,557	10,200,000	8,690,000	—	—	200,000	—	24
	Saturday, 18th May	76,998	24,142	19,529,413	539,413	10,300,000	8,690,000	—	—	100,000	—	24
	Monday, 20th May	2,661	10,627	19,521,447	531,447	10,300,000	8,690,000	—	—	—	—	24
	Tuesday, 21st May	36,942	4,086	19,554,303	564,303	10,300,000	8,690,000	—	—	—	—	24
	Wednesday, 22nd May	117,181	16,124	19,655,360	665,360	10,300,000	8,690,000	50,000	—	50,000	—	24
	Thursday, 23rd May	203,301	101,734	19,756,927	566,927	10,500,000	8,690,000	—	—	200,000	—	24
	Friday, 24th May	300,222	217,030	19,840,119	550,119	10,600,000	8,690,000	—	—	100,000	—	24
	Saturday, 25th May	10,195	13,401	19,836,913	546,913	10,600,000	8,690,000	—	—	—	—	24
	Tuesday, 28th May	19,019	29,003	19,826,929	536,929	10,600,000	8,690,000	—	—	—	—	24
	Wednesday, 29th May	186,030	12,215	20,000,744	710,744	10,600,000	8,690,000	—	—	—	—	24
	Thursday, 30th May	100,746	18,931	20,082,559	792,559	10,600,000	8,690,000	150,000	—	150,000	—	3
	Friday, 31st May	152,167	184,143	20,050,583	660,583	10,700,000	8,690,000	50,000	—	150,000	—	24
	Saturday, 1st June	2,822	399,854	19,653,551	613,551	10,850,000	8,190,000	—	500,000	150,000	—	24
	Monday, 3rd June	19,345	22,987	19,649,909	609,909	10,850,000	8,190,000	50,000	—	50,000	—	24
	Tuesday, 4th June	25,761	38,572	19,637,098	597,098	10,850,000	8,190,000	—	—	—	—	24
	Wednesday, 5th June	217,166	106,412	19,747,852	757,852	10,750,000	8,240,000	100,000	—	—	50,000	24
	Thursday, 6th June	44,460	8,019	19,784,293	644,293	10,900,000	8,240,000	—	—	150,000	—	24
	Friday, 7th June	208,994	138,594	19,854,693	564,693	11,050,000	8,240,000	—	—	150,000	—	24
	Saturday, 8th June	12,708	26,325	19,841,076	551,076	11,050,000	8,240,000	—	—	—	—	24
	Monday, 10th June	4,924	25,692	19,850,308	560,308	11,050,000	8,240,000	—	—	—	—	24
	Tuesday, 11th June	27,978	10,767	19,867,519	577,519	11,050,000	8,240,000	—	—	—	—	24
	Wednesday, 12th June	145,490	23,075	19,989,934	699,934	11,050,000	8,240,000	—	—	—	—	24
	Thursday, 13th June	29,100	7,666	20,011,368	721,368	11,050,000	8,240,000	50,000	—	50,000	—	24
	Friday, 14th June	473,893	87,371	20,397,890	2,507,890	10,850,000	7,040,000	200,000	1,200,000	—	—	24
Saturday, 15th June	69,916	2,014,974	18,452,832	612,832	10,800,000	7,040,000	100,000	—	50,000	—	24	
Monday, 17th June	5,916	280,110	18,178,638	538,638	10,600,000	7,040,000	200,000	—	—	—	24	
Tuesday, 18th June	33,976	14,999	18,197,615	557,615	10,600,000	7,040,000	50,000	—	50,000	—	24	
Wednesday, 19th June	74,729	6,924	18,265,420	625,420	10,600,000	7,040,000	100,000	—	100,000	—	24	
Thursday, 20th June	2,696	122,894	18,145,222	555,222	10,550,000	7,040,000	150,000	—	100,000	—	24	
Friday, 21st June	219,361	207,539	18,157,044	617,044	10,500,000	7,040,000	100,000	—	50,000	—	24	
Saturday, 22nd June	3,389	141,269	18,019,164	579,164	10,400,000	7,040,000	100,000	—	—	—	24	
Monday, 24th June	24,857	16,192	18,027,829	587,829	10,400,000	7,040,000	100,000	—	100,000	—	24	
Tuesday, 25th June	27,498	114,348	17,940,979	550,979	10,350,000	7,040,000	50,000	—	—	—	24	
Wednesday, 26th June	97,733	31,949	18,006,763	716,763	10,250,000	7,040,000	250,000	—	150,000	—	24	
Thursday, 27th June	22,476	122,044	17,907,195	917,195	9,950,000	7,040,000	300,000	—	—	—	24	
Friday, 28th June	322,525	408,556	17,821,164	1,231,164	9,550,000	7,040,000	400,000	—	—	—	24	
Saturday, 29th June	18,606	704,296	17,135,474	2,295,474	9,400,000	5,440,000	150,000	1,600,000	—	—	24	
Carried forward		9,477,919	11,759,137	—	—	—	6,300,000	5,450,000	5,500,000	3,025,000	—	



Statement No 3—(continued)

Date	Amount of Closing Balance and transactions affecting it			Form in which Closing Balance was held			Transactions affecting Form but not Amount of Closing Balance				Rate of Interest obtained on Loans granted and renewed
	Receipts, excluding Loans and Deposits repaid (1)	Payments, excluding Loans and Deposits granted (2)	Closing Balance (£ Money at Bank of England, on loan and on deposit with other Banks) (3)	At Bank of England (4)	On loan (5)	On deposit with other Banks (6)	Loans repaid (7)	Deposits repaid (8)	Loans granted (9)	Deposits granted (10)	
	£	£	£	£	£	£	£	£	£	£	Per cent
<b>1912</b>											
Brought forward -	9,477,919	11,759,137	—	—	—	—	6,300,000	5,450,000	5,500,000	3,025,000	—
Monday, 1st July -	24,158	1,658,733	15,500,899	660,699	9,400,000	5,440,000	—	—	50,000	—	2½
Tuesday, 2nd July -	64,618	128,868	15,436,649	596,649	9,400,000	5,440,000	—	—	50,000	—	2½
Wednesday, 3rd July -	127,885	115,458	15,449,076	809,076	9,200,000	5,440,000	200,000	—	—	—	2½
Thursday, 4th July -	62,008	120,959	15,390,125	1,915,125	9,100,000	4,375,000	150,000	1,065,000	50,000	—	2½
Friday, 5th July -	289,803	1,550,948	14,128,980	653,980	9,100,000	4,375,000	50,000	—	50,000	—	2½
Saturday, 6th July -	6,669	48,613	14,087,036	612,036	9,100,000	4,375,000	—	—	—	—	2½
Monday, 8th July -	1,072	20,385	14,067,723	592,723	9,100,000	4,375,000	100,000	—	100,000	—	2½
Tuesday, 9th July -	11,544	27,163	14,052,104	577,104	9,100,000	4,375,000	200,000	—	200,000	—	2½
Wednesday, 10th July -	41,631	26,002	14,067,733	592,733	9,100,000	4,375,000	100,000	—	100,000	—	2½
Thursday, 11th July -	3,740	10,565	14,060,908	585,908	9,100,000	4,375,000	50,000	—	50,000	—	2½
Friday, 12th July -	298,634	222,882	14,136,860	561,860	9,200,000	4,375,000	200,000	—	300,000	—	2½
Saturday, 13th July -	1,369	16,855	14,121,374	546,374	9,200,000	4,375,000	100,000	—	100,000	—	2½
Monday, 15th July -	7,242	83,793	14,044,823	569,823	9,100,000	4,375,000	150,000	—	50,000	—	2½
Tuesday, 16th July -	3,712	179,573	13,868,962	543,962	8,950,000	4,375,000	200,000	—	50,000	—	2½
Wednesday, 17th July -	37,110	14,541	13,591,531	566,531	8,950,000	4,375,000	100,000	—	100,000	—	2½
Thursday, 18th July -	5,601	100,952	13,796,180	571,180	8,850,000	4,375,000	200,000	—	100,000	—	2½
Friday, 19th July -	443,448	120,709	14,118,919	693,919	9,050,000	4,375,000	50,000	—	250,000	—	2½
Saturday, 20th July -	653	19,509	14,100,063	525,063	9,200,000	4,375,000	—	—	150,000	—	2½
Monday, 22nd July -	7,068	15,767	14,091,364	516,364	9,200,000	4,375,000	—	—	—	—	2½
Tuesday, 23rd July -	4,090	40,610	14,054,844	529,844	9,150,000	4,375,000	50,000	—	—	—	2½
Wednesday, 24th July -	3,503	18,867	14,039,480	514,480	9,150,000	4,375,000	—	—	—	—	2½
Thursday, 25th July -	23,052	126,367	13,936,165	561,165	9,000,000	4,375,000	250,000	—	100,000	—	2½
Friday, 26th July -	451,723	88,758	14,299,130	674,130	9,250,000	4,375,000	—	—	250,000	—	2½
Saturday, 27th July -	6,947	93,782	14,212,295	587,295	9,250,000	4,375,000	50,000	—	50,000	—	2½
Monday, 29th July -	2,588	17,948	14,196,935	571,935	9,250,000	4,375,000	—	—	—	—	2½
Tuesday, 30th July -	57,311	26,371	14,227,875	602,875	9,250,000	4,375,000	50,000	—	50,000	—	2½
Wednesday, 31st July -	7,447	16,199	14,219,123	594,123	9,250,000	4,375,000	150,000	—	150,000	—	2½
Thursday, 1st August -	503,721	111,603	14,611,241	586,241	9,650,000	4,375,000	100,000	—	500,000	—	2½
Friday, 2nd August -	327,331	111,616	14,826,956	601,956	9,750,000	4,475,000	150,000	—	250,000	100,000	2½
Saturday, 3rd August -	2,743	109,085	14,720,614	595,614	9,650,000	4,475,000	100,000	—	—	—	2½
Tuesday, 6th August -	1,055	124,261	14,597,408	572,408	9,550,000	4,475,000	200,000	—	100,000	—	2½
Wednesday, 7th August -	3,691	86,215	14,514,884	589,884	9,450,000	4,475,000	100,000	—	—	—	2½
Thursday, 8th August -	10,722	70,148	14,455,458	530,458	9,450,000	4,475,000	50,000	—	50,000	—	2½
Friday, 9th August -	337,604	77,585	14,715,477	640,477	9,600,000	4,475,000	—	—	150,000	—	2½
Saturday, 10th August -	400,958	452,517	14,663,918	588,918	9,600,000	4,475,000	—	—	—	—	2½

Monday, 12th August -	4,002	117,978	14,549,942	574,942	9,500,000	4,475,000	100,000	—	—	—	21
Tuesday, 13th August -	1,667	43,397	14,508,212	533,212	9,500,000	4,475,000	—	—	—	—	22
Wednesday, 14th August -	41,729	20,149	14,529,792	554,792	9,500,000	4,475,000	100,000	—	100,000	—	23
Thursday, 15th August -	3,588	418,449	14,114,931	589,931	9,050,000	4,475,000	450,000	—	—	—	24
Friday, 16th August -	341,010	247,996	14,207,945	682,945	9,050,000	4,475,000	—	—	—	—	25
Saturday, 17th August -	1,015,454	1,084,892	14,188,507	1,013,507	8,800,000	4,375,000	250,000	100,000	—	—	26
Monday, 19th August -	2,384	71,460	14,119,431	1,244,431	8,500,000	4,375,000	300,000	—	—	—	27
Tuesday, 20th August -	4,011	13,985	14,109,457	1,584,457	8,150,000	4,375,000	350,000	—	—	—	28
Wednesday, 21st August -	2,035	1,003,472	*13,108,020	583,020	8,150,000	4,375,000	50,000	—	50,000	—	29
Thursday, 22nd August -	3,498	16,255	13,095,263	570,263	8,150,000	4,375,000	100,000	—	100,000	—	30
Friday, 23rd August -	338,724	88,154	13,345,833	570,833	8,400,000	4,375,000	50,000	—	300,000	—	31
Saturday, 24th August -	43	33,866	13,312,010	537,010	8,400,000	4,375,000	50,000	—	50,000	—	32
Monday, 26th August -	2,191	22,499	13,291,702	566,702	8,350,000	4,375,000	50,000	—	—	—	33
Tuesday, 27th August -	3,880	38,414	13,257,168	532,168	8,350,000	4,375,000	—	—	—	—	34
Wednesday, 28th August -	1,403	39,471	13,219,100	544,100	8,300,000	4,375,000	150,000	—	100,000	—	35
Thursday, 29th August -	4,463	4,429	13,219,134	594,134	8,250,000	4,375,000	200,000	—	150,000	—	36
Friday, 30th August -	357,558	67,288	13,509,404	684,404	8,450,000	4,375,000	300,000	—	500,000	—	37
Saturday, 31st August -	1,075	22,886	13,487,593	662,593	8,450,000	4,375,000	50,000	—	50,000	—	38
Monday, 2nd Sept -	4,424	81,816	13,410,201	585,201	8,450,000	4,375,000	100,000	—	100,000	—	39
Tuesday, 3rd Sept -	75,024	31,410	13,453,815	578,815	8,500,000	4,375,000	150,000	—	200,000	—	40
Wednesday, 4th Sept -	4,165	11,327	13,446,653	571,653	8,500,000	4,375,000	100,000	—	100,000	—	41
Thursday, 5th Sept -	4,132	9,742	13,441,043	565,043	8,500,000	4,375,000	—	—	—	—	42
Friday, 6th Sept -	300,622	75,270	13,666,895	591,395	8,700,000	4,375,000	—	—	200,000	—	43
Saturday, 7th Sept -	7,719	12,705	13,661,409	586,409	8,700,000	4,375,000	50,000	—	50,000	—	44
Monday, 9th Sept -	1,000,691	21,965	*14,640,135	565,135	8,700,000	5,375,000	50,000	—	50,000	1,000,000	45
Tuesday, 10th Sept -	34,872	13,850	14,661,157	566,157	8,700,000	5,375,000	100,000	—	100,000	—	46
Wednesday, 11th Sept -	39,168	9,796	14,690,529	565,529	8,750,000	5,375,000	50,000	—	100,000	—	47
Thursday, 12th Sept -	47,081	25,452	14,712,158	587,158	8,750,000	5,375,000	—	—	—	—	48
Friday, 13th Sept -	333,589	61,880	14,983,867	558,867	9,050,000	5,375,000	100,000	—	400,000	—	49
Saturday, 14th Sept -	1,036	9,816	14,975,087	550,087	9,050,000	5,375,000	50,000	—	50,000	—	50
Monday, 16th Sept -	603,941	216,346	15,262,682	587,682	9,400,000	5,375,000	50,000	—	400,000	—	51
Tuesday, 17th Sept -	76,272	144,051	15,294,903	569,903	9,350,000	5,375,000	100,000	—	50,000	—	52
Wednesday, 18th Sept -	32,714	64,131	15,263,486	588,486	9,300,000	5,375,000	150,000	—	100,000	—	53
Thursday, 19th Sept -	1,782	30,326	15,234,942	559,942	9,300,000	5,375,000	—	—	—	—	54
Friday, 20th Sept -	344,422	116,226	15,463,138	588,138	9,500,000	5,375,000	—	—	200,000	—	55
Saturday, 21st Sept -	5,612	40,512	15,423,238	553,238	9,500,000	5,375,000	—	—	—	—	56
Monday, 23rd Sept -	779	26,132	15,402,885	577,885	9,450,000	5,375,000	150,000	—	100,000	—	57
Tuesday, 24th Sept -	31,541	263,808	15,170,618	545,618	9,250,000	5,375,000	200,000	—	—	—	58
Wednesday, 25th Sept -	1,809	48,217	15,124,210	549,210	9,200,000	5,375,000	50,000	—	—	—	59
Thursday, 26th Sept -	1,771	7,052	15,118,929	593,929	9,150,000	5,375,000	50,000	—	—	—	60
Friday, 27th Sept -	507,268	250,949	15,375,248	700,248	9,300,000	5,375,000	150,000	—	800,000	—	61
Saturday, 28th Sept -	1,510,695	9,752	16,876,191	1,201,191	10,300,000	5,375,000	—	—	1,000,000	—	62
Monday, 30th Sept -	6,626	18,225	16,864,592	1,889,592	10,300,000	4,675,000	150,000	950,000	150,000	250,000	63
Carried forward -	20,166,840	22,718,940	—	—	—	—	13,850,000	7,565,000	13,950,000	4,375,000	—

\* Six months' Treasury Bills for 1,000,000<sup>l</sup> were bought at a cost of 986,726<sup>l</sup> from Home Treasury Balances on 21st August as it was then known that the 1,000,000<sup>l</sup> Bills maturing 9th September held on account of the Gold Standard Reserve would not be replaced by His Majesty's Exchequer. The money received on the 9th September for the maturing Bills reimbursed the Home Treasury.

Statement No 3—(continued)

Date	Amount of Closing Balance and Transactions affecting it			Form in which Closing Balance was held			Transactions affecting Form but not Amount of Closing Balance				Rate of Interest obtained on Loans granted and renewed
	Receipts, excluding Loans and Deposits repaid (1)	Payments, excluding Loans and Deposits granted (2)	Closing Balance (a) Money at Bank of England, on loan, and on deposit with other Banks (3)	At Bank of England (4)	On loan (5)	On deposit with other Banks (6)	Loans repaid (7)	Deposits repaid (8)	Loans granted (9)	Deposits granted (10)	
	£	£	£	£	£	£	£	£	£	£	Per cent
Brought forward -	20,166,840	22,718,940					13,850,000	7,565,000	13,950,000	4,375,000	—
Tuesday, 1st October -	159,300	839,307	16,184,585	1,209,585	10,300,000	4,675,000	100,000	—	100,000	—	2½
Wednesday, 2nd October -	16,837	178,351	16,023,071	1,048,071	10,300,000	4,675,000	—	—	—	—	2½
Thursday, 3rd October -	3,404	466,944	15,559,531	634,531	10,250,000	4,675,000	—	—	—	—	2½
Friday, 4th October -	528,295	164,952	15,922,874	1,897,874	9,950,000	4,075,000	50,000	—	—	—	2½
Saturday, 5th October -	96,754	1,387,604	14,632,024	1,157,024	9,750,000	3,725,000	300,000	600,000	—	—	2½
Monday, 7th October -	1,964	684,652	13,949,336	674,336	9,550,000	3,725,000	200,000	400,000	—	50,000	2½
Tuesday, 8th October -	8,842	303,467	13,654,711	529,711	9,400,000	3,725,000	350,000	—	150,000	—	2½
Wednesday, 9th October -	21,276	152,004	13,523,983	596,983	9,200,000	3,725,000	200,000	—	50,000	—	2½
Thursday, 10th October -	9,599	65,743	13,467,839	542,839	9,200,000	3,725,000	—	—	—	—	2½
Friday, 11th October -	379,276	71,942	13,775,173	1,675,173	8,550,000	3,550,000	650,000	175,000	—	—	2½
Saturday, 12th October -	8,432	579,961	13,203,644	3,003,644	6,850,000	3,350,000	1,700,000	200,000	—	—	2½
Monday, 14th October -	1,857,869	4,264,818	10,796,695	966,695	6,450,000	3,350,000	400,000	—	—	—	—
Tuesday, 15th October -	4,820	34,903	10,766,612	966,612	6,450,000	3,350,000	—	—	—	—	3½
Wednesday, 16th October -	53,517	215,446	10,604,683	954,683	6,300,000	3,350,000	150,000	—	—	—	3½
Thursday, 17th October -	4,843	17,377	10,592,149	592,149	6,650,000	3,350,000	—	—	—	—	3½
Friday, 18th October -	278,022	99,243	10,770,928	570,928	6,850,000	3,350,000	—	—	350,000	—	3½
Saturday, 19th October -	1,382	20,256	10,752,054	552,054	6,850,000	3,350,000	—	—	200,000	—	3½
Monday, 21st October -	53,243	6,620	10,798,677	698,677	6,750,000	3,350,000	—	—	—	—	3½
Tuesday, 22nd October -	23,368	4,872	10,817,173	867,173	6,600,000	3,350,000	100,000	—	—	—	3½
Wednesday, 23rd October -	78,875	21,266	10,874,782	924,782	6,600,000	3,350,000	150,000	—	50,000	—	3½
Thursday, 24th October -	1,953	27,424	10,849,311	899,311	6,600,000	3,350,000	200,000	—	200,000	—	3½
Friday, 25th October -	410,972	169,750	11,090,533	990,533	6,750,000	3,350,000	150,000	—	300,000	—	4
Saturday, 26th October -	3,006	27,639	11,065,900	965,900	6,750,000	3,350,000	—	—	—	—	4
Monday, 28th October -	769	14,156	11,052,513	952,513	6,750,000	3,350,000	50,000	—	50,000	—	4
Tuesday, 29th October -	15,462	361,425	10,706,550	856,550	6,500,000	3,350,000	250,000	—	—	—	4
Wednesday, 30th October -	79,250	321,202	10,464,598	614,598	6,500,000	3,350,000	100,000	—	100,000	—	4½
Thursday, 31st October -	698	141,130	10,324,166	574,166	6,400,000	3,350,000	100,000	—	—	—	4½
Friday, 1st Nov -	416,509	87,135	10,653,540	653,540	6,650,000	3,350,000	—	—	250,000	—	4½
Saturday, 2nd Nov -	3,931	95,735	10,561,736	561,736	6,650,000	3,350,000	—	—	—	—	4½
Monday, 4th Nov -	959	294,803	10,267,892	617,892	6,400,000	3,250,000	250,000	100,000	—	—	—
Tuesday, 5th Nov -	70,604	48,321	10,290,175	840,175	6,200,000	3,250,000	200,000	—	—	—	—
Wednesday, 6th Nov -	78,865	42,327	10,326,713	876,713	6,200,000	3,250,000	—	—	—	—	4½
Thursday, 7th Nov -	8,752	45,633	10,289,832	639,832	6,400,000	3,250,000	—	—	200,000	—	4½
Friday, 8th Nov -	450,705	192,205	10,548,332	598,332	6,700,000	3,250,000	—	—	300,000	—	4½
Saturday, 9th Nov -	5,656	11,022	10,542,966	1,142,966	7,150,000	2,250,000	50,000	1,000,000	500,000	—	4½

Monday, 11th Nov	1,012	103,674	10,440,304	790,304	7,400,000	2,250,000	50,000	—	300,000	—	4
Tuesday, 12th Nov	16,362	281,684	10,174,782	624,782	7,600,000	1,950,000	100,000	300,000	100,000	—	4
Wednesday, 13th Nov	79,002	49,217	10,204,567	654,567	7,600,000	1,950,000	100,000	—	100,000	—	4
Thursday, 14th Nov	2,544	114,958	10,092,153	542,153	7,600,000	1,950,000	—	—	—	—	4
Friday, 15th Nov	2,253,219	2,494,547	9,850,825	650,825	7,250,000	1,950,000	400,000	—	50,000	—	4
Saturday, 16th Nov	2,629	191,837	9,661,617	661,617	7,300,000	1,700,000	—	250,000	50,000	—	4
Monday, 18th Nov	590	104,809	9,557,398	557,398	7,300,000	1,700,000	—	—	—	—	4
Tuesday, 19th Nov	68,065	73,065	9,552,398	552,398	7,300,000	1,700,000	100,000	—	100,000	—	4
Wednesday, 20th Nov	38,308	58,188	9,532,523	582,523	7,250,000	1,700,000	100,000	—	50,000	—	4
Thursday, 21st Nov	8,264	15,210	9,525,577	575,577	7,250,000	1,700,000	—	—	—	—	4
Friday, 22nd Nov	492,645	210,954	9,807,268	657,268	7,450,000	1,700,000	50,000	—	250,000	—	4
Saturday, 23rd Nov	1,527	108,689	9,700,106	550,106	7,450,000	1,700,000	—	—	—	—	4
Monday, 25th Nov	3,185	123,838	9,579,453	529,453	7,350,000	1,700,000	100,000	—	—	—	4
Tuesday, 26th Nov	12,086	69,599	9,521,940	571,940	7,250,000	1,700,000	100,000	—	—	—	4
Wednesday, 27th Nov	121,122	13,715	9,629,347	679,347	7,250,000	1,700,000	50,000	—	50,000	—	4
Thursday, 28th Nov	2,358	7,641	9,624,064	574,064	7,350,000	1,700,000	200,000	—	300,000	—	4
Friday, 29th Nov	545,185	95,384	10,073,865	2,173,865	7,200,000	700,000	300,000	1,000,000	150,000	—	4
Saturday, 30th Nov	6,995	1,526,204	8,554,656	754,656	7,100,000	700,000	150,000	—	50,000	—	4
Monday, 2nd Dec	1,707	48,971	8,507,392	557,392	7,250,000	700,000	—	—	150,000	—	4
Tuesday, 3rd Dec	38,218	55,897	8,489,713	539,713	7,250,000	700,000	50,000	—	50,000	—	4
Wednesday, 4th Dec	85,146	25,398	8,549,461	599,461	7,250,000	700,000	50,000	—	50,000	—	4
Thursday, 5th Dec	23,224	48,188	8,524,497	574,497	7,300,000	650,000	—	50,000	50,000	—	4
Friday, 6th Dec	461,089	120,960	8,864,606	614,606	7,600,000	650,000	200,000	—	500,000	—	4
Saturday, 7th Dec	55,143	8,715	8,911,034	611,034	7,650,000	650,000	—	—	50,000	—	4
Monday, 9th Dec	88,423	4,871	8,994,586	644,586	7,700,000	650,000	—	—	50,000	—	4
Tuesday, 10th Dec	1,069	22,531	8,973,124	523,124	7,800,000	650,000	—	—	100,000	—	4
Wednesday, 11th Dec	150,064	13,445	9,109,743	659,743	7,800,000	650,000	—	—	—	—	4
Thursday, 12th Dec	53,749	16,893	9,146,599	596,599	7,900,000	650,000	—	—	100,000	—	4
Friday, 13th Dec	481,498	89,838	9,538,259	538,259	8,350,000	650,000	—	—	450,000	—	4
Saturday, 14th Dec	1,453	15,201	9,524,511	524,511	8,350,000	650,000	—	—	—	—	4
Monday, 16th Dec	46,219	227,758	9,342,972	592,972	8,100,000	650,000	250,000	—	—	—	4
Tuesday, 17th Dec	8,867	30,079	9,316,760	516,760	8,150,000	650,000	—	—	50,000	—	4
Wednesday, 18th Dec	467,394	18,938	9,765,216	965,216	8,400,000	400,000	100,000	250,000	350,000	—	4
Thursday, 19th Dec	1,386	18,823	9,747,779	647,779	8,700,000	400,000	—	—	300,000	—	4
Friday, 20th Dec	386,772	142,619	9,991,932	791,932	8,800,000	400,000	—	—	100,000	—	4
Saturday, 21st Dec	102,971	40,923	10,053,980	803,980	9,250,000	—	—	400,000	450,000	—	4
Monday, 23rd Dec	24,105	22,849	10,055,236	655,236	9,400,000	—	—	—	150,000	—	4
Tuesday, 24th Dec	139,126	93,323	10,101,039	651,039	9,450,000	—	100,000	—	150,000	—	4
Friday, 27th Dec	720,592	199,585	10,622,046	972,046	9,650,000	—	50,000	—	250,000	—	4
Saturday, 28th Dec	9,755	25,803	10,605,998	955,998	9,650,000	—	—	—	—	—	4
Monday, 30th Dec	58,146	10,282	10,653,862	1,003,862	9,650,000	—	100,000	—	100,000	—	4
Tuesday, 31st Dec	18,599	22,202	10,650,259	1,800,259	8,850,000	—	850,000	—	50,000	—	4
Carried forward	32,379,642	41,146,075	—	—	—	—	23,350,000	12,290,000	22,000,000	4,425,000	—

Statement No 3—(continued)

Date	Amount of Closing Balance and transactions affecting it			Form in which Closing Balance was held			Transactions affecting Form but not Amount of Closing Balance				Rate of Interest obtained on Loans granted and renewed
	Receipts, excluding Loans and Deposits repaid (1)	Payments, excluding Loans and Deposits granted (2)	Closing Balance (£, Money at Bank of England, on loan, and on deposit with other Banks) (3)	At Bank of England (4)	On loan (5)	On deposit with other Banks (6)	Loans repaid (7)	Deposits repaid (8)	Loans granted (9)	Deposits granted (10)	
	£	£	£	£	£	£	£	£	£	£	Per cent
<b>1913.</b>											
Brought forward	32,379,642	41,146,075	—	—	—	—	23,350,000	12,290,000	22,000,000	4,425,000	—
Wednesday, 1st January	320,681	1,367,489	9,603,451	803,451	8,800,000	—	50,000	—	—	—	4
Thursday, 2nd January	28,645	167,712	9,464,384	564,384	8,900,000	—	—	100,000	—	—	4
Friday, 3rd January	410,245	146,088	9,728,541	828,541	8,900,000	—	—	—	—	—	4
Saturday, 4th January	7,853	246,445	9,489,949	1,689,949	7,800,000	—	1,100,000	—	—	—	4
Monday, 6th January	125,042	1,357,091	8,257,900	707,900	7,550,000	—	350,000	—	100,000	—	4
Tuesday, 7th January	51,139	57,021	8,252,018	552,018	7,700,000	—	100,000	—	250,000	—	4
Wednesday, 8th January	270,792	593,603	7,929,207	529,207	7,400,000	—	300,000	—	—	—	4
Thursday, 9th January	55,354	89,312	7,895,249	645,249	7,250,000	—	150,000	—	—	—	4
Friday, 10th January	429,673	121,029	8,203,893	603,893	7,600,000	—	50,000	—	400,000	—	4
Saturday, 11th January	5,625	26,529	8,182,989	582,989	7,600,000	—	—	—	—	—	4
Monday, 13th January	34,248	87,194	8,130,043	580,043	7,550,000	—	50,000	—	—	—	4
Tuesday, 14th January	144,317	43,381	8,230,979	680,979	7,550,000	—	—	—	—	—	4
Wednesday, 15th January	215,634	86,569	8,360,044	760,044	7,600,000	—	—	—	50,000	—	4
Thursday, 16th January	39,254	180,365	8,218,933	618,933	7,600,000	—	100,000	—	100,000	—	4
Friday, 17th January	369,468	211,981	8,376,420	676,420	7,700,000	—	—	—	100,000	—	4½
Saturday, 18th January	779	60,403	8,316,796	566,796	7,750,000	—	—	—	50,000	—	4½
Monday, 20th January	34,357	22,658	8,328,495	578,495	7,750,000	—	—	—	—	—	4½
Tuesday, 21st January	133,528	48,579	8,413,444	613,444	7,800,000	—	—	—	50,000	—	4½
Wednesday, 22nd January	159,374	43,447	8,529,371	679,371	7,850,000	—	100,000	—	150,000	—	4½
Thursday, 23rd January	176,848	18,972	8,687,247	737,247	7,950,000	—	50,000	—	150,000	—	4½
Friday, 24th January	402,823	111,536	8,978,534	578,534	8,400,000	—	50,000	—	500,000	—	4½
Saturday, 25th January	11,369	54,407	8,935,496	535,496	8,400,000	—	—	—	—	—	4½
Monday, 27th January	36,523	80,006	8,892,013	592,013	8,300,000	—	100,000	—	—	—	4½
Tuesday, 28th January	40,264	34,161	8,898,116	548,116	8,350,000	—	—	—	50,000	—	4½
Wednesday, 29th January	47,378	21,188	8,924,306	574,306	8,350,000	—	100,000	—	100,000	—	4½
Thursday, 30th January	192,609	29,696	9,087,219	737,219	8,350,000	—	50,000	—	50,000	—	4½
Friday, 31st January	177,425	266,117	8,998,527	648,527	8,350,000	—	50,000	—	50,000	—	4½
Saturday, 1st February	3,735	71,073	8,931,189	531,189	8,400,000	—	50,000	—	100,000	—	4½
Monday, 3rd February	87,326	32,031	8,986,484	636,484	8,350,000	—	250,000	—	200,000	—	4½
Tuesday, 4th February	196,213	132,858	9,049,839	549,839	8,500,000	—	—	—	150,000	—	4½
Wednesday, 5th February	163,002	12,060	9,200,781	700,781	8,500,000	—	—	—	—	—	4½
Thursday, 6th February	69,536	79,769	9,190,548	590,548	8,600,000	—	100,000	—	200,000	—	4½
Friday, 7th February	336,245	103,194	9,423,599	673,599	8,750,000	—	100,000	—	250,000	—	4½
Saturday, 8th February	13,921	23,411	9,414,109	614,109	8,800,000	—	—	—	50,000	—	4½
Monday, 10th February	400,736	415,472	9,399,373	549,373	8,850,000	—	—	—	50,000	—	4½

Tuesday, 11th February	192,960	22,117	9,570,216	620,216	8,950,000	—	50,000	—	150,000	—	44
Wednesday, 12th February	487,849	17,753	10,040,312	1,090,312	8,950,000	—	50,000	—	50,000	—	44
Thursday, 13th February	28,225	430,934	9,637,603	687,603	8,950,000	—	100,000	—	100,000	—	44
Friday, 14th February	150,051	281,748	9,505,906	655,906	8,850,000	—	150,000	—	50,000	—	44
Saturday, 15th February	11,294	57,083	9,460,117	610,117	8,850,000	—	50,000	—	50,000	—	44
Monday, 17th February	1,014,924	1,222,208	9,252,833	602,833	8,650,000	—	200,000	—	—	—	44
Tuesday, 18th February	16,128	42,866	9,226,095	526,095	8,700,000	—	50,000	—	100,000	—	44
Wednesday, 19th February	263,113	12,165	9,477,043	777,043	8,700,000	—	—	—	—	—	44
Thursday, 20th February	361,751	42,843	9,795,951	895,951	8,900,000	—	—	—	200,000	—	44
Friday, 21st February	1,099,985	1,123,864	9,771,472	671,472	9,100,000	—	—	—	200,000	—	44
Saturday, 22nd February	5,497	15,692	9,761,277	561,277	9,200,000	—	—	—	100,000	—	44
Monday, 24th February	73,167	14,660	9,819,784	619,784	9,200,000	—	50,000	—	50,000	—	44
Tuesday, 25th February	176,210	12,075	9,983,919	583,919	9,400,000	—	—	—	200,000	—	44
Wednesday, 26th February	267,012	16,481	10,234,450	834,450	9,400,000	—	—	—	—	—	44
Thursday, 27th February	188,629	16,691	10,406,388	756,388	9,650,000	—	—	—	250,000	—	44
Friday, 28th February	34,206	190,086	10,250,508	600,508	9,650,000	—	100,000	—	100,000	—	44
Saturday, 1st March	14,257	57,431	10,207,334	557,334	9,650,000	—	—	—	—	—	44
Monday, 3rd March	70,320	16,576	10,261,078	611,078	9,650,000	—	—	—	—	—	44
Tuesday, 4th March	55,894	8,013	10,309,059	559,059	9,750,000	—	—	—	100,000	—	44
Wednesday, 5th March	151,863	50,088	10,410,834	660,834	9,750,000	—	—	—	—	—	44
Thursday, 6th March	74,337	23,017	10,462,154	712,154	9,750,000	—	50,000	—	50,000	—	44
Friday, 7th March	184,357	101,751	10,544,760	594,760	9,950,000	—	—	—	200,000	—	44
Saturday, 8th March	4,057	62,618	10,486,199	586,199	9,900,000	—	50,000	—	—	—	44
Monday, 10th March	31,784	36,978	10,481,005	581,005	9,900,000	—	100,000	—	100,000	—	44
Tuesday, 11th March	9,712	11,999	10,478,718	578,718	9,900,000	—	100,000	—	100,000	—	44
Wednesday, 12th March	259,295	22,361	10,715,652	815,652	9,900,000	—	—	—	—	—	44
Thursday, 13th March	32,752	34,497	10,713,907	813,907	9,900,000	—	—	—	—	—	44
Friday, 14th March	32,106	191,042	10,554,971	604,971	9,950,000	—	100,000	—	150,000	—	44
Saturday, 15th March	64,374	121,203	10,498,142	598,142	9,900,000	—	100,000	—	50,000	—	44
Monday, 17th March	1,559	208,297	10,991,404	541,404	9,750,000	—	250,000	—	100,000	—	44
Tuesday, 18th March	2,657	81,669	10,212,392	562,392	9,650,000	—	100,000	—	—	—	44
Wednesday, 19th March	237,523	144,800	10,305,115	755,115	9,550,000	—	100,000	—	—	—	44
Thursday, 20th March	107,064	37,405	10,374,774	574,774	9,800,000	—	—	—	250,000	—	44
Saturday, 22nd March	56,712	55,144	10,376,342	576,342	9,800,000	—	—	—	—	—	44
Tuesday, 25th March	28,204	39,414	10,365,132	565,132	9,800,000	—	50,000	—	50,000	—	44
Wednesday, 26th March	308,241	432,668	10,240,705	740,705	9,500,000	—	300,000	—	—	—	44
Thursday, 27th March	77,895	163,155	10,155,445	605,445	9,550,000	—	—	—	50,000	—	44
Friday, 28th March	1,234,550	1,385,316	10,004,679	554,679	9,450,000	—	100,000	—	—	—	44
Saturday, 29th March	30,962	290,318	9,744,823	594,823	9,150,000	—	300,000	—	—	—	44
Monday, 31st March	20,434	19,405	9,745,852	1,095,852	8,650,000	—	600,000	—	100,000	—	44
	45,083,013	54,703,853	—	—	—	—	29,700,000	12,290,000	28,150,000	4,425,000	—

APPENDIX XI

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Total Cash Receipts, Columns 1, 7, and 8 - - 87,023,013

Total Cash Payments Columns 2, 9, and 10 - - 87,278,853

- Total Cash transactions in 1912-13 - - 174,301,866

## SUPPLEMENTARY STATEMENT I

STATEMENT showing the Average Rate of Interest on Loans to Approved Borrowers in each Month in 1910, 1911, 1912, and 1913 (to 31st May) and the Bank Rate during the corresponding periods

Month	Average Rate based on the prevailing Rate on each day of the Month	Bank Rate fixed each Thursday in the Month					
		Per cent	Per cent	Per cent	Per cent	Per cent	Per cent
1910							
January	2 54	*4	4	3½	3½	—	
February	1 79	3½	3	3	3	—	
March	2 85	3	3	4	4	4	
April	3 62	4	4	4	4	—	
May	3 30	4	4	4	4	—	
June	2 81	†3½	3	3	3	3	
July	1 49	3	3	3	3	—	
August	1 91	3	3	3	3	—	
September	2 14	3	3	3	3	4	
October	3 42	4	4	5	5	—	
November	4 74	5	5	5	5	—	
December	3 43	4½	4½	4½	4½	4½	
1911							
January	3 35	4½	4½	4½	4	—	
February	2 97	4	4	3½	3½	—	
March	2 83	3½	3	3	3	3	
April	2 34	3	3	3	3	—	
May	1 81	3	3	3	3	—	
June	1 76	3	3	3	3	3	
July	1 36	3	3	3	3	—	
August	1 61	3	3	3	3	3	
September	2 29	3	3	4	4	—	
October	2 70	4	4	4	4	—	
November	2 78	4	4	4	4	4	
December	3 68	4	4	4	4	—	
1912							
January	3 37	4	4	4	4	—	
February	3 07	4	3½	3½	3½	3½	
March	3 19	3½	3½	3½	3½	—	
April	3 02	3½	3½	3½	3½	—	
May	2 55	3½	3	3	3	3	
June	2 67	3	3	3	3	—	
July	2 62	3	3	3	3	—	
August	2 62	3	3	3	3	4	
September	2 79	4	4	4	4	—	
October	3 25	4	4	5	5	5	
November	4 27	5	5	5	5	—	
December	4 47	5	5	5	5	—	
1913							
January	4 23	5	5	5	5	5	
February	4 58	5	5	5	5	—	
March	4 53	5	5	5	5	—	
April	3 37	5	5	4½	4½	—	
May	3 15	4½	4½	4½	4½	4½	

\* 1st to 6th January, 4½ per cent

† 1st June, 4 per cent

SUPPLEMENTARY STATEMENT II.

Showing the Payments to the Bank of England and the Bank of Ireland for remuneration in respect of the under-mentioned Services

Years	BANK OF ENGLAND														BANK OF IRELAND				
	Management of Debt														Purchase of Silver 4th per cent. Commission on first 2,000,000l ordered to be purchased in a financial year Then 4th per cent. for commission and brokerage, of which a moiety only is included below	Custody of Gold on account of the Paper Currency Reserve at 3/2nd per cent per annum	Total Payments to Bank of England	Debt on which calculated	Management at 360l per million
	India Stocks.				India Bonds		India Sterling Bills Issue at 200l per million	India Railway Debenture Stocks Management at 300l per million	Rupee Debt										
	Management		Issue		Management at 100l per million.	Issue at 1,250l per million			Management		Assessment of India Income Tax at 2l per Rs 10 deducted	Conversion of 3 per cent Rupee Loan at 500l per ten million Rupees	Preparation and issue of new coupon sheets of Rupee Loan of 1854-55						
	Debt on which calculated *	Rate	Charge	Rate	Charge	Rate	Charge	Rate	Charge										
1903-04	120,782,190	360l per million up to 100,000,000l then 100l per million	37,960	500l per million	750	—	—	400	1,473	300l per ten million Rupees	5,497	141	—	—	5,376	—	51,597	4,191,465	1,509
1904-06	122,999,298		38,144		1,250	—	—	200	1,473		5,081	130	—	—	5,626	—	51,904	4,322,891	1,556
1905-06	124,608,127		38,354	625l per million	1,250	—	—	—	1,473		4,999	123	—	—	6,813	11	53,023	4,557,758	1,641
1906-07	133,576,125		39,662		1,250	—	—	—	1,473		8,000	123	—	—	9,830	1,703	62,041	4,995,287	1,798
1907-08	139,146,360		41,114		4,375	—	—	200	1,473		8,000	123	—	—	4,340	1,864	61,489	5,277,200	1,900
1908-09	143,815,482		42,650		6,250	—	—	1,200	1,473	400l per ten million Rupees subject to a minimum charge of	8,000	114	—	—	—	1,155	60,842	5,627,114	2,026
1909-10	150,745,563	800l per million	44,423	1,250l per million	9,375	—	—	1,200	1,473		8,000	108	110	—	—	477	65,166	5,807,710	2,091
1910-11	167,837,094		46,753		9,375	—	5,000	1,000	1,473		8,000	114	31	150	—	871	72,767	6,006,601	2,162
1911-12	160,933,572		47,805		4,375	400	—	900	1,473		8,000	101	1	—	—	1,484	64,539	6,175,585	2,223
1912-18	168,901,076		48,372		3,750	350	—	—	1,473		8,000	90	28	—	2,500	1,711	66,574	6,246,616	2,249

\* The cost of the management of a new loan commences from the date of the last instalment



## SUPPLEMENTARY STATEMENT III

COMMISSION paid to the Broker to the Secretary of State for India during each of the undermentioned years on temporary investments of the Cash Balances and Purchases and Sales of Stock

Year	Temporary investments of Cash Balances		Sales of India Stock (c)	Purchases or Sales for Gold Standard Reserve (c)	Purchases or Sales for Paper Currency Reserve (c)	Purchases for Sinking Funds (c)	Sales for Regular Widows' Fund (c)	Total
	Short Loans (a)	Deposits with Banks (b)						
1893-94	£ 515	—	£ 866	—	—	£ 63	—	£ 1,444
1894-95	169	—	—	—	—	64	—	233
1895-96	482	—	—	—	—	63	—	545
1896-97	1,722	—	—	—	—	64	—	1,786
1897-98	1,039	—	—	—	—	66	—	1,105
1898-99	1,528	—	—	—	—	71	3	1,602
1899-1900	2,569	—	—	—	—	77	3	2,649
1900-01	2,955	—	—	—	—	82	3	3,040
1901-02	3,983	—	813	2,125	—	86	3	7,010
1902-03	7,266	—	—	241	—	89	3	7,599
1903-04	7,002	—	—	1,784	—	94	4	8,884
1904-05	8,420	—	—	515	—	98	4	9,037
1905-06	10,909	—	—	2,310	890	100	4	14,213
1906-07	10,361	—	—	239	22	105	—	10,727
1907-08	6,596	—	—	362	45	113	3	7,119
1908-09	2,496	—	—	1,856	131	117	3	4,603
1909-10	6,764	199	—	200	—	129	4	7,296
1910-11	13,053	1,670	—	1,507	—	146	—	16,376
1911-12	6,929	1,686	—	183	1,021	156	5	9,980
1912-13	6,219	1,205	—	326	—	206	5	7,961
.	100,977	4,760	1,679	11,648	2,109	1,989	47	123,209
	105,737		17,472					

(a) To 30th June 1911, five per cent on interest earned, thenceforward 2½ per cent up to a maximum of 5,000 in any financial year, and 1½ per cent above 5,000

(b) One per cent on interest earned

(c) Registered securities, ½ per cent

Short dated bearer securities maturing within one year or less, ½ per cent

Ditto in from two to three years, ¼ per cent

Ditto in more than three years, ¼ per cent

It should be noted that, from 1st July 1911, the total commission to be paid to the Broker on the purchases and sales of securities in any financial year is not to exceed 1,500

W B

## APPENDIX XII

MEMORANDUM ON THE AUTHORITY REQUIRED FOR PAYMENTS MADE AT THE  
INDIA OFFICE, AND THE SYSTEM OF CONTROL EXERCISED IN RESPECT  
OF THEM, SUBMITTED BY MR WALTER BADOCK, C.S.I.,  
ACCOUNTANT-GENERAL AT THE INDIA OFFICE.

1 For all payments the approval of the Secretary of State in Council is required in some form

*Interest on Debt, and Interest guaranteed to the several  
Indian Railway Companies*

2 Every Capital Issue by Government and by guaranteed companies, whether in the form of stocks, bonds, or debentures, is effected on terms and conditions authorised by the Secretary of State in Council, and these include the payment of interest at the rate or rates and on the dates prescribed. The claim of the Bank of England or Bank of Ireland, or of the Railway Company, as the case may be, for the payment of interest is closely examined in respect of the amount of principal on which interest is claimed, the rate of interest, the period for which it is payable, and the calculation involved

*Payments for Issue and Management of Debt*

3 The annual rates of charge made by the Banks of England and Ireland for the issue and management of the Indian Debt have been approved by the Secretary of State in Council

They are as follows —

Bank of England—

India Stocks, Issue Charge By Tender, 625*l* per million, at Fixed price, 1,250*l* per million Management Charge While the total Debt is over 125,000,000*l*, 300*l* per million per annum, if below 125,000,000*l*, 360*l* per million per annum on first 100,000,000*l*, and 60*l* per million per annum on remainder  
India Bonds, Issue Charge 1,250*l* per million, Management Charge, 100*l* per million per annum  
India Bills, Issue Charge, 200*l* per million  
Indian Railway Debenture Stocks, the liability for which has been assumed by the Secretary of State, Management Charge, 300*l* per million per annum  
Indian Railway Debentures, the liability for which has been assumed by the Secretary of State, Management Charge, Nil  
Rupce Debt, Management Charge, 400*l* per crore per annum with a minimum payment of 8,000*l* per annum

Bank of Ireland—India Stocks, Management Charge, 360*l* per million per annum

The above arrangements regarding Management Charges were entered into in December 1905 and expire on 31st December 1915. The issue charges were fixed in December 1904.

*Payments for Stores procured for India*

4. Stores for India are procured on requisitions received from the several Governments in India, the indents for which are submitted by the Director-General of Stores for the sanction of the Secretary of State in Council. This sanction constitutes the authority for the requisite payments in respect of them.

5 Tenders for the supply of the stores and for freight thereon are obtained by the Director-General of Stores, and accepted by him or by some other authorized officer, in accordance with the rules laid down by the Secretary of State in Council. All tenders are accepted on behalf of the Secretary of State in Council to whom a weekly list of contracts so made is submitted. A copy of each contract certified by the Director-General of Stores or a responsible officer of his department, is furnished to the Accountant-General for his guidance.

6 The claims of the contractors for payment are prepared in duplicate and received in the first instance by the Director-General of Stores, who transmits them to the Accountant-General with his certificate on the claim that the stores therein enumerated have been inspected by the officers of his department, that the quantities are correct, that they are in every respect fit for the service of the Indian Government, and either that they have been taken into his charge preparatory to being shipped or have been shipped per vessel named to a port in India specified. In the Accountant-General's Department the rates and calculations are examined, and the quantities and the sums charged are recorded on the copy of the Contract, care being taken that the aggregate of the claims passed for payment in respect of a contract correspond therewith.

7 Some stores are manufactured by the War Department specially in compliance with Indian orders, others are procured from the War Department stock, and others are obtained by means of contracts entered into by the War Department on behalf of this Office. Similarly, some stores are obtained from the Admiralty. But in all cases the indents from India have received the sanction of the Secretary of State in Council, and the claims for payment are closely examined in every respect possible.

8 The claims for payment for freight, like those for stores, are prepared in duplicate and are received in the first instance by the Director-General of Stores, who transmits them to the Accountant-General's Department with his certificate that stores of the weights and measurements specified in the claim have been shipped. The rates charged are compared in the Accountant-General's Department with the record of the freight tender or contract, and the calculations are examined, before payment. Four-fifths of the total amount of a freight claim is paid in this country (except that claims of less than 50*l* are paid in full), and the remaining one-fifth is paid in India, except when shipment is to a few outlying ports, when the one-fifth is paid in England on receipt of the out-turn certificate.

9 The duplicate of each store and freight claim, corrected if need be, is returned to the Director-General of Stores to form the basis of an invoice to be transmitted by him to India.

10 Statements are transmitted to India monthly by the Accountant-General reconciling the sums paid for stores and freight with the invoices despatched to India.

#### *Payments to Indian Railway Companies*

11 The Contracts under which payments are made to the several Indian Railway Companies have been approved by, and executed under the authority of, the Secretary of State in Council.

12 The examination of claims for Guaranteed Interest has been explained under the head of Interest on Debt. The claims for payment of the Annuities by means of which several of the Indian Railways have been purchased by the Secretary of State in Council, undergo a similar examination.

13 Indents for stores are received from India by the Boards of Railway Companies, and referred by them to their Consulting Engineers. Tenders for the supply of the stores are then invited by the Boards and considered by them at meetings, at which the Government Director is present. A list of the accepted tenders is entered on the Board Minutes, the approval of the Government Director being specially requested where the tender exceeds the Indian estimate. Tenders for freight are invited by the Boards when stores are ready for shipment, or at such time as may appear most advantageous to the various Companies, and the contracts are duly entered on the Minutes, which also contain sanction to the rates of marine insurance on such stores.

The Board Minutes are forwarded to this Office, and after they have been initialled by the Government Director and the Members of the Public Works Committee of the Council they are forwarded to the Accountant-General's Department where a register is kept of the contracts for stores, freight, &c

14 When the Contractors deliver the stores and present their claims, these claims, accompanied by the Consulting Engineer's certificates that the goods have been delivered in proper condition and quantities, are submitted to this Office for payment, and care is taken that the quantities and prices accord with the amounts sanctioned by the Board Minutes. Claims for freight and insurance are presented in a similar way, and by means of the bills of lading which accompany the freight claims it is ascertained that the stores supplied have been duly shipped. All bills for stores, freight, &c, contain full details, which are examined and checked.

15 In a subsequent examination of the Companies' books and accounts by officers of the Accountant-General's Department it is ascertained that the amounts issued by this Office to the Companies have been paid over to the Contractors and their receipts obtained. Out-turn certificates received from India are closely examined with a view to ascertaining that the stores purchased have duly reached their destination.

16 Claims for inspection of stores, and bills for stamps, stationery, and other requisites are periodically presented to this Office and paid after examination and submission to Council.

17 Furlough pay and sick pay of employees are issued to Railway Companies in accordance with the Board Minutes and Regulations approved from time to time by the Secretary of State in Council.

18 The salaries of directors and consulting engineers and the cost of office establishments are fixed by the Secretary of State in Council, and any alterations require his sanction.

19. Thus, all payments to the Railway Companies are made upon general or specific authorizations of the Secretary of State in Council, and the proceedings of the Companies are supervised at all stages so as to prevent irregularities. Any disputes upon questions of principle arising out of the terms of arrangement are submitted for the decision of the Secretary of State in Council.

*Periodical Payments to His Majesty's Treasury and other Public Departments.*

20 Payments such as the contribution to the cost of the Eastern Mail Service, and the contribution towards the expenses of His Majesty's Ships in the Indian Seas, are made in accordance with agreements entered into by the Secretary of State in Council.

*Payments to the War Office of Effective and Non-Effective Charges in respect of British Forces serving or having served in India*

21 At the commencement of each official year an agreement is arrived at between the Secretary of State in Council and the War Office as to the amounts of quarterly advances to be made on this account during the year, subject to adjustment on production of the final accounts. Quarterly payments are made accordingly and subsequently adjusted.

*Pay, Pensions, &c*

22 Furlough allowance, pay, pensions, and annuities to members and retired members of the Indian services are issued in accordance with the regulations applicable to the several services, which have all been approved by the Secretary of State in Council. An officer arriving in this country from India brings with him a Last Pay Certificate, which shows the rate of pay to which he is entitled and the date to which he has received payment in India. The details of the certificate are subject to careful scrutiny in the Accountant-General's Department, and, if they appear to be in accordance with the regulations, the certificate is accepted as authority for payment. Any payment of this description not in strict accordance with the regulations, or

any advance made in anticipation of the receipt of the proper documents from India, would require the special sanction of the Secretary of State in Council

23 Grant of pensions in accordance with the regulations is made as regards some classes of pensions by the Government of India or the Government of Madras or Bombay, and as regards other classes by the Secretary of State in Council. Satisfactory documentary evidence of the grant in each case is required in the Accountant-General's Department before payment is made

24 Widows and children entitled to pensions chargeable on Indian Revenues from one or other of the various Service Funds to which officers subscribe and of which the regulations have been approved by the Secretary of State in Council are admitted to pension by the Director of Funds at this Office

*Salaries of the India Office.*

25 The salaries of the India Office Establishment have been fixed by the Secretary of State in Council and approved and sanctioned by Orders of the King in Council in accordance with Section 15 of the Government of India Act, 1858

*Miscellaneous Payments*

26 When proposed expenditure is submitted for the sanction of the Secretary of State in Council, an estimate is generally furnished of the probable amount involved, and if that estimate of the specific grant made is exceeded, the matter is again brought before the Secretary of State in Council, and a further sanction applied for and obtained before payment of the excess. In cases in which expenditure has been sanctioned without a limit as to its amount, and claims made in respect of it are not governed by regulations prescribed by the Secretary of State in Council, each claim is submitted for the special approval of the Secretary of State in Council prior to payment.

*Purchase of Securities for the Gold Standard Reserve, and Paper Currency Reserve*

27 The Accountant-General advises the Financial Department of dividends available for investment or deposit, of short-dated securities maturing and requiring re-investment, &c. The matter is considered in Finance Committee and by the Secretary of State in Council. The Secretary of State's Broker is generally instructed to take such action as is decided upon, and payments are made to him for purchases approved, either upon the transfer of stock to the Stock Account of the Secretary of State in Council at the Bank of England, or upon the deposit at the Bank of England for account of the Secretary of State of bonds, bills, or debentures

*Family Remittances, &c*

28 Payments in this country to the relations and friends of soldiers and other employees serving in India are made under regulations prescribed by the Secretary of State in Council. Estates of deceased officers and others are remitted to this country under regulations so sanctioned

*Petty Disbursements, &c.*

29 The Under Secretaries of State have been authorised by the Secretary of State in Council to sanction petty disbursements up to a limit of 10*l*. And the Accountant-General and the Director-General of Stores have been so authorised to make disbursements up to a limit of 5*l*.

30 In cases of urgency the Under Secretaries of State occasionally sanction larger payments in anticipation of the payments receiving the approval of the Secretary of State in Council.

*Mode of Payments*

31 The Secretary of State for India has four accounts at the Bank of England, his "Cash Account," his "Drawing Account," his "Bill Account" and his "Bonds and Debentures paid off Account"

32 Receipts of every description are paid into the "Cash Account," which is drawn upon only by transfers to the other three accounts, signed either by the Accountant-General or by the Deputy Accountant-General or by the Assistant Accountant-General and countersigned by certain clerks in the Department specially authorised by the Secretary of State in Council, in accordance with 22 & 23 Vict c 41, s 3

33 The "Drawing Account" is supplied from time to time as necessary, generally twice a day, by transfers from the "Cash Account", and is drawn upon by the Cashier and his assistants, who are officers of the Accountant-General's Department. Each cheque or "write-off" requires two signatures, one of which must be that of a clerk of the Upper Division or a Staff clerk. The Cashier and his assistants never know what balance is at the credit of the "Drawing Account"

34 Bills of Exchange drawn on the Secretary of State, of which there are comparatively few, are accepted by either the Accountant-General or the Deputy Accountant-General or the Assistant Accountant-General, payable out of the Secretary of State's Bill Account, and are advised to the Bank of England by the Cashier. The "Bill Account" is supplied by transfers from the "Cash Account" just sufficient to meet bills falling due

35 The "Bonds and Debentures paid off" Account is also fed, when bonds or debentures mature, from the Cash Account by writes-off sufficient to cover the liability accrued

36 The Cashier has a balance of banknotes and cash in the office, generally amounting to 2,000*l*, which about once a month is, for a few days, increased to 3,000*l*, to meet a large number of small payments

37 The Cashier is also authorised to keep a stock of Postal Orders, for the purpose of making a large number of payments each week to families of soldiers in India. The maximum value of the Postal Orders to be held has been fixed at 2,000*l*

38 The Cashier's authorities for payments are the signatures of certain specified clerks in the branches of the department in which claims are examined, and salaries, pay, pensions, &c, are calculated

*Audit*

39. All payments made at this Office are subsequently audited in the department of the Auditor of the Indian Home Accounts, who is an officer appointed by Royal Warrant pursuant to Section 52 of the Act for the better Government of India (21 and 22 Vict, cap 106)

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ROYAL COMMISSION ON INDIAN FINANCE AND CURRENCY

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APPENDICES TO THE INTERIM REPORT

OF

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THE COMMISSIONERS.

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VOL. II.

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*Presented to both Houses of Parliament by Command of His Majesty.*

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## APPENDIX XIII

NOTE ON RESTRICTIONS ON THE BUSINESS OF THE RESIDENCY BANKS,  
SUBMITTED BY MR L ABRAHAMS, C B, ASSISTANT UNDER  
SECRETARY OF STATE FOR INDIA (WITH REFERENCE TO QUESTION 182)

1 The business of the Presidency Banks of Bengal, Madras, and Bombay is governed by —

- 1 The Presidency Banks Act, passed by the Governor-General of India in Council, No XI of 1876, as amended by Act V of 1879, Act XX of 1890, and Act I of 1907, passed by the same legislative authority.
2. Bye-laws made under Section 63 of the Act of '76

## PRESIDENCY BANKS ACT

2 The provisions of the Acts that are, or might be regarded as being, restrictive are as follows —

Sections 24, 26, and 27 The number of directors must be not less than six or more than nine. The two senior directors must go out of office at the annual general meeting, but may be re-elected. The qualification of a director is the holding of unencumbered stock shares of the Bank to the nominal amount of at least Rs 10,000 (667) in his own right. The following persons are, or become, disqualified for office of director of any of the three Banks — Directors, promoters, agents, and managers of any other joint stock bank established, or having such or agency, or advertised as about to be established, or to have such or agency, in British India, salaried officers of Government especially authorised by the Government of India, holders of any other office of profit under the Bank, bankrupts, lunatics, directors who are absent from the Board for more than three months. Two persons who are partners in the same mercantile firm, or one of whom is the general agent of, or has a power of procuration from, the other, or from a mercantile firm in which the other is a partner, may not serve as directors at the same time.

Section 34 No secretary, inspector, manager, or assistant, and (without the previous sanction of the Board) no khazanchi or shroff in the service of a Presidency Bank may engage in any other banking or commercial business as principal or agent, or act as broker or agent for the sale or purchase of securities.

Section 36 The Banks are authorised to carry following kinds of business. —

- (a) The grant of advances, loans, and credits on security of (1) stocks, bonds, &c., issued by the British Government, the Secretary of State for India, the Government of India, the Government of India, the Indian Railway Companies, Municipal and Assisted bodies of various kinds in India, (2) bullion or other property deposited with or assigned to the Bank, or of which the title is deposited or assigned, (3) accepted promissory notes endorsed by the payee, joint and several promissory notes of two or more persons not connected with each other in general partnership. The Bank of Madras may also lend on Ceylon Government securities, but may not hold

such securities, whether as security for loans or as investments (see *d* below), in excess of the amount of the deposits at its Ceylon branch Advances and loans may be granted to the Government without specific security

- (b) The realising of securities mentioned in (a) when occasion arises
- (bb) Loans to Courts of Wards for a period of not more than six months on the security of estates under their charge
- (c) The drawing, discounting, buying, and selling of bills of exchange and other negotiable securities payable in India or Ceylon
- (d) Investing in any of the stocks, bonds, &c, mentioned in (a) and selling them when required But the Banks of Bengal and Bombay may not invest in securities of the Government of Ceylon
- (e) The issue of bank-post-bills and letters of credit payable in India or Ceylon, provided that they are not payable to the bearer on demand
- (f) The buying and selling of gold and silver
- (g) The receiving of money on deposit and current account
- (h) The custody of plate, jewels, title deeds, &c
- (i) The selling of property which may come to the bank in satisfaction of any of its claims
- (j) The transacting of pecuniary agency business on commission
- (k) Acting as agent on commission to buy and sell securities, to receive the principal and dividends, and to remit principal and dividends at the risk of the owner by bills of exchange payable either in India or elsewhere
- (l) Drawing bills of exchange and granting letters of credit payable out of India for the use of principals for the purpose of the remittances mentioned in (k)
- (m) Buying bills of exchange payable out of India at a usance not exceeding six months to meet such bills or letters of credit
- (mm) Borrowing money in India and giving security for such loans
- (n) Doing things incidental or subsidiary to the kinds of business mentioned above
- (o) Transacting business for the Government.

Section 37. A Presidency Bank may not grant loans or advances —

- (a) For more than six months
- (b) On the security of stock or shares of the bank
- (c) On the security of landed property, subject to the exception mentioned in 36 (bb) above.
- (d) It may not, except on the security of the stock and bonds, &c, mentioned under (1) in the summary of 36 (a) above, or of bullion or goods, discount bills for any individual or firm to an amount exceeding in the whole at any time the limit prescribed by the Bank's bye-laws, or lend or advance in any way to any individual or firm an amount exceeding in the whole at any one time the said limit.

- (e) It may not discount or buy or take as security for an advance, loan, or credit a negotiable instrument of any individual or firm payable in the town or at the place where it is presented for discount, which does not carry on it the several responsibilities of two persons or firms not connected in general partnership
- (f) It may not discount, or buy, or take as security for an advance, loan, or credit any negotiable security payable after a longer period than six months

A Presidency Bank may allow any of its customers to over-draw without security to the extent of such sum not exceeding Rs 10,000 as may be prescribed by the bye-laws

Section 42 A Presidency Bank may not establish new branches or agencies outside the Presidency in which it is situate, except with the previous consent of the Government of India. No agency of a Presidency Bank in a Presidency town may grant advances, loans, or credits, or open deposit or current accounts, or discount bills drawn payable in the Presidency in which it is established, or act as agent on commission, or transact any business except as agent of its principal Bank or any of its branches or agencies

Section 43 A Presidency Bank must submit to the Government of India any information regarding its affairs, and any of its documents that the Government of India may require, and must publish such statements of assets and liabilities as the Government of India may require

Section 63 A Presidency Bank must make bye-laws (1) as required for the various purposes mentioned in Section 37, (2) regarding the conditions under which advances may be made to directors or officers of the bank or their relatives and connections, (3) as to the particulars to be given in the half-yearly balance sheet. It may also make bye-laws regarding certain other matters, including the remuneration of directors. No bye-law, and no alteration or rescission of a bye-law, is valid unless it is consistent with the provisions of the Act, and has been approved in writing by the Government of India

#### BYE-LAWS

3 The bye-laws of the Presidency Banks were revised in 1907. The only restrictive ones are those made in pursuance of Section 37 of the Act. The limit specified for the purposes of Section 37, Sub-sections (d) and (e) is, in the case of the Banks of Bengal and Bombay, Rs 6,00,000 (40,000*l*), and in the case of the Bank of Madras, Rs 5,00,000 (33,000*l*). The limit of overdrafts to customers without security is fixed by all three Banks at the full amount mentioned in the Act, *i e*, Rs 10,000 (667*l*)

4 The byelaws also provide (in different language for the three Banks) against a director having any voice in dealing with applications for the grant of accomodation to himself, his partners, co-trustees, employees, and relatives

## APPENDIX XIV.

MEMORANDUM ON PROPOSALS FOR THE ESTABLISHMENT OF A STATE BANK  
FOR INDIA, SUBMITTED BY MR L. ABRAHAMS, C.B., ASSISTANT  
UNDER SECRETARY OF STATE FOR INDIA

## PREFATORY NOTE

1. This Memorandum has been prepared because I understand that the Commission desire to have before them some information and suggestions from me when considering the question of a State Bank for India

The Commission are aware, from correspondence already submitted, that a scheme of a somewhat similar nature, viz, for the establishment of a Central Bank of India, was discussed from 1899 to 1901 in correspondence between the Secretary of State and the Government of India. The result of the discussion is shown in the following extract from a Despatch from the Secretary of State to the Government of India, dated 26th July 1901 —

“ You have come reluctantly to the conclusion that the circumstances are unfavourable to the policy of pressing on the Centralisation Scheme at the present time. This opinion I consider myself bound to accept, but I agree with your Excellency that it will be distinctly advisable, as soon as may be practicable, to establish a Central Bank in India, for the reasons given in your Letter and in Sir Edward Law’s able minute, and I request that this object may be kept in view, and that the scheme may be revived whenever there is a possibility of its being successfully carried out ”

Since this was written the matter has not been further considered by the Secretary of State in Council or by the Government of India

The present Memorandum is therefore submitted as containing only the result of my own study of the subject, and does not carry any official authority

Lord Crewe has authorised me to present it because he is satisfied that further consideration at the present time of the question of a State Bank is very desirable, he welcomes the opportunity afforded by the appointment of the Royal Commission, and is anxious that any assistance that can be given by a member of the India Office shall be at the Commission’s disposal

## I.

## HISTORY OF PREVIOUS DISCUSSIONS

*Discussion of 1867*

2 In March 1867, when the old Bank of Bombay was known to have lost a large part of its capital, the Directors of the Bank of Bengal submitted to the Government of India a scheme, drawn up by their Secretary and Treasurer, Mr G. Dickson, for the amalgamation of the three Presidency Banks into a Central Bank for all India, with a paid-up capital of five crores of rupees and an unpaid capital of the same amount. Mr Dickson did not propose that the Bank should necessarily be allowed to transact other kinds of business than those previously done by the separate Presidency Banks, but he expressed the hope that the Government of India, which had recently introduced a Government note issue in place of the notes previously issued by the Banks, would return to “ sounder views ” on this subject. He summarised the advantages of the amalgamation as follows — “ With such a large capital actually provided, and liable to further calls in case of need, with an adequate reserve fund in the event of unforeseen losses arising either from the ordinary business or from political disturbances, I submit that the proposed united Bank would be equal at all times and under all circumstances not only to meet the legitimate requirements of commerce, but by unity of action and under the eye of the supreme Government [i.e., the Government of India], to control those recurring monetary crises which, although hitherto more felt in the Bombay Presidency, yet very closely and intimately affect the interests and position of all Government would have an absolute guarantee for the unvarying management of their treasuries under one controlling power, a certainty of greater economy in the use and distribution of their balances throughout India, uniform management of the

“ public debt under the same safeguards but with enlarged security, and a powerful agent in aiding them in all their financial measures, not only at the seat of Government but by combined action throughout the whole country ”

On the question of organisation his proposal was that “ Local Boards would be continued as at present in Bombay and Madras, but the supreme control and the rules and regulations for the conduct of the business must rest in, and be laid down by, the Board in Calcutta, *i e*, that the same rules and conditions under which business is carried on here [in Calcutta] must be strictly adhered to and be conformed to by Bombay and Madras, and that power to enforce their due observance be specially reserved ”

Mr Dickson's scheme was communicated to the Directors of the Bank of Bombay, by whom it was unanimously approved, and the attitude of the Government of India towards it was encouraging. On 4th June 1867, a resolution in favour of amalgamation was submitted to a special general meeting of the shareholders of the Bank of Bombay. It was opposed, partly on the grounds illustrated by the following extracts from the speech of the Hon G Foggo (a member of the firm of Messrs Forbes & Co, of Bombay) “ He considered the true course for the shareholders to pursue, “ having regard to their own interests, and saying nothing with regard

\* “ East India (Bombay Banks) ” ordered by the House of Commons to be printed 9th March 1868, page 127

† A passage on pp 234-5 of Mr J M Keynes' work on “ Indian Currency and Finance ” suggesting that the scheme of amalgamation was “ smothered ” by a “ magnificent and empty maxim of political wisdom ” uttered by the Secretary of State (Sir S H Northcote), appears to need modification, as the remark in question occurs in a Despatch dated 15th February 1868, *i e*, six months after the withdrawal of the scheme, and was inserted, not as a maxim of political wisdom, but with the purely practical object of conveying a warning that the special arrangements very reluctantly sanctioned in 1868 between the Government and the new Bank of Bombay, including the holding of shares by the Government and the appointment of a Government Inspector, drew their sole justification from the peculiar circumstances then existing in Bombay (which would have been left without a Bank if the Secretary of State had not waived his objections to these features in the arrangement), and that similar arrangements would probably not be allowed in any larger scheme that might be subsequently inaugurated in normal circumstances

“ to public interests which to them were of minor importance, was to throw away the amalgamation scheme at once, and lay their case before the Government of Bombay, the Supreme Government, and the Secretary of State, asking what assistance would be given the shareholders towards recovering the lost capital of the Bank, and helping them in the reconstruction of a new Bank of Bombay ” The resolution was carried by 137 to 134. A further meeting was summoned for 12th August 1867, and on 2nd August the Bank of Bombay telegraphed to the Bank of Bengal. “ Unless your Bank withdraw the scheme for amalgamation, the majority of my Directors feel bound to submit it to their shareholders on the 12th, but they cannot hold out any prospect of its being carried ” The Bank of Bengal replied (5th August), “ in the absence of any prospects of the incorporation of the Banks being carried, the Directors of this Bank withdraw from the negotiations ” †

#### *Discussion of 1899-1901*

3 Several of the witnesses before the Indian Currency Committee of 1898-99 gave evidence in favour of the establishment of a Central Bank of India. The fullest statement on the subject was made by Mr A de Rothschild in a note (*see* question 11,853) which may be summarised as follows —

Central Bank to be formed with capital of 14,000,000*l* (to be held partly in gold and partly in securities) and power to issue notes against the whole of it. If possible the Presidency Banks to be fused with the Central Bank. The latter to hold Government balances, to have the right to import silver for coinage free of duty, and to share in profits of coinage, to take no part in exchange business, but to confine itself to internal operations and to lending to the Government on deficiency bills, to take such precautions for protecting its gold as are taken by the Banks of France and Germany. In the event of the Central Bank's supply of gold running short, the Government to “ come to the rescue to the extent of 10,000,000*l*. sterling ”

In a note appended to the Report of the Indian Currency Committee of 1898-9, Mr Hambro called attention to the advantages which would, in his opinion, arise from the establishment of a strong central bank. His note is printed at the beginning of a collection of papers on banking which is being submitted to the Commission (*see* Appendix XV, page 357). It mentions two quite different services to be rendered by the Bank, viz —To assist in giving effect to any regulations having the convertibility of the rupee in view, and to expand the banking facilities of India in time of pressure and to curtail them in time of slackness.

It will be seen from the collection of papers that Mr Hambro's suggestions formed the subject of correspondence beginning with the Secretary of State's Despatch to the Government of India dated 25th July 1899 (page 357), and ending with his Despatch dated 26th July 1901 (page 438), that both the Secretary of State and the Government of India began the discussion with a favourable disposition towards the scheme, that the scheme was dropped as being one with which it was at the time inopportune to proceed, but that its revival at a more favourable time was contemplated. It is scarcely necessary to summarise the correspondence, but it may be convenient to note (a) the various classes of business with which it was contemplated, in the course of the discussion, that the Bank would be entrusted, (b) the special reasons which led to the temporary abandonment of the scheme.

(a) The following list appears to include all that was contemplated at various times with regard to the functions to be assumed by the Bank and the objects to be served by its existence —

Convertibility of the rupee -	Mr Hambro's note (page 357).
Expansion and contraction of supply of loanable capital	Mr Hambro's note (page 357)
Foreign Remittance business	Letter from Government of India dated 24th August 1899 (page 357)
Promoting circulation of gold	Letter from Government of India, dated 24th August 1899 (page 357)
Management of Paper Currency - - -	Letter from Government of India, dated 24th August 1899 (page 357)
Consolidation and concentration of banking facilities in India - - -	Mr Dawkins' speech on 1st Sept 1899 (pages 358-61)
Access to London - - -	Mr Dawkins' speech on 1st Sept 1899 (pages 358-61)
Increase of banking capital	Mr Dawkins' speech on 5th January 1900 (pages 394-9)
Sterling capital - - -	Letter from Government of India, dated 18th January 1900, paragraph 13 (page 405)

This enumeration is perhaps not exhaustive, and its items are not mutually exclusive, but it suffices to show generally the ideas in the minds of those who took part in the discussion. It is important to observe that there appears to have been no systematic consideration of the question of the interdependence of the various items, *i.e.*, how far the undertaking by a Central Bank of one particular kind of business involved the undertaking by it of any other kind or kinds.

(b) The reasons that led to the temporary abandonment of the scheme are to be found in the Letter from the Government of India No 199, dated 13th June 1901 (page 426). They were as follows.—

- (1) Expense, owing in part to the fact that additional capital could not be profitably employed throughout the year
- (2) "Provincial jealousies" and personal reasons

\* On this phrase, see paragraph 10 below (page 353)

*Recent Discussion*

4 There has been considerable discussion recently in the press and elsewhere regarding the scheme for a Central Bank, which is now more commonly referred to as a scheme for a State Bank. The following extracts from well known sources show the points of view from which the scheme is regarded by various writers and the advantages expected from it —

*Extracts from speech by Sir E H Holden, Bart., at Annual General Meeting of London City and Midland Bank, on 24th January 1913 —*

“ We are now experiencing the *inflow* of gold to India, but we have before us the more difficult problem of how the gold is to be made to *flow out* from India. Some believe that an outflow can never be brought about on economic lines unless money be made cheaper in India than at present. While money rules for a certain period of the year up to 8 per cent in India, we cannot expect the Bank Rate in London to be effective in attracting gold from India in the same way as from other countries. If a Bank, similar to the Bank of France, were established in India with numerous branches in different parts of the country, and followed up by a greater development of sound banking institutions, then credit would be created by means of loans, discounting and borrowing facilities would be increased, and 8 per cent bank rates would disappear. I hope the Secretary of State for India may be induced to seriously consider the question of appointing without delay a fresh Commission, not only in the interests of this country, but also in the interests of all those countries which are now unable to obtain gold to meet their increasing trade, increasing liabilities and increasing credit. There are serious dangers ahead, and it has become a pressing necessity to provide protection against them ”

*Extracts from an article on “ A State Bank for India ” in the “ Times ” of 14th March 1913 —*

“ The Presidency Banks remain inadequately capitalised and strictly compartmented and they are incapable of attaining that full development which would be possible if all parts of the country were open to them. They are also debarred by law from raising money in the English market, but obviously a central institution, with substantial capital, should be allowed under the supervision of the India Office to have an agency in London to transact ordinary business, especially business connected with the maintenance of the Gold Standard. There can be no question that a State Bank would have a most salutary effect in securing the confidence of the people with money to invest. India suffers from a vast amount of infructuous capital, which a State Bank would be likely to draw forth in the shape of shares or deposits. Hitherto, the investment of money by deposit in banks has been on a much smaller scale than it ought to be. Another great advantage would be a far better utilisation of the capital of the concern than is possible in the case of the three Presidency Banks with their existing limitations. The central institution would have branches in every part of India, and would be able to let the capital flow in the directions where it was most needed. The facilities it would have for financing trade would go far to eliminate the sharp seasonal divergences between discount rates in India, where they range in a course of a year from 3 per cent to 8 or 9 per cent and the adequate capital at disposal would tend materially to bring about a lower average level. Given a State Bank with large capital and plenty of resources, the Government could again keep its headquarters balances in bank custody without any apprehension of monetary disturbances in consequence of withdrawals, and, on the other hand, it would be able to depend on the Bank to advance money if the needs of the State momentarily required the assistance ”

Extract from article in "Times of India," 11th April 1913 (reprinted in "Indian Currency and Finance" (Bombay and London, 1913), pages 240-1) —

"The sole reason that will bear investigation for the promotion of a great State Bank is the necessity of relieving Government of the management of the Gold Standard policy. The opinions of the brothers Rothschild that the internal arrangements of the currency are always better conducted by a bank than by a Government may be said to have been proved in the case of India, for it is impossible to suppose that a bank would have muddled the management of the currency as the home authorities have done. If those who advocate the creation of a State Bank would face the situation squarely by concentrating attention on that aspect of the question, and by working in the direction of combining within the ambit of the proposed Bank the Paper Currency Department and the Gold Standard Reserves, as well as the Treasury Balances at home and in India, and the home remittances of Government, more practical results would be likely to ensue than by endeavours to bring about an amalgamation of the Presidency Banks on the plea that more capital is wanted to meet increasing demands for credit and on the problematical advantages of such an amalgamation set forth by *The Times* correspondent. If the cost to Government of the present arrangements plus a reasonable share in the future profits of the Paper Currency Department were offered for relieving them of the duties connected with the various financial activities referred to, it would go a long way towards securing the creation of the proposed Bank provided a very large capital was not insisted upon."

## II.

### SUGGESTIONS AS TO THE FORM THAT A SCHEME FOR A STATE BANK SHOULD TAKE.

#### *Duties to be entrusted to it*

5 It will be observed, from the historical retrospect, that there has been a remarkable diversity of views, and no little vagueness, as to the duties that should be entrusted to a State Bank, and the advantages to be expected from so entrusting them. In the absence of a clear statement on these points it is difficult for any individual or body to answer "Yes" or "No" to the question whether the establishment of such a bank is desirable. I therefore venture to submit the following suggestions which have, I think, the one merit of being definite. The suggestions are based on the assumption that a State Bank, if formed at all, will be formed by the amalgamation of the three existing Presidency Banks. Remarks on the advantages and disadvantages of the scheme, and the probability or otherwise of its adoption, are postponed to a later section.

#### *A.—To hold as Bankers Government Balances in India.*

It may be assumed that the primary object for which a State Bank would be established would be in order that the Government of India might deposit with it balances in excess of those that it now deposits with the Presidency Banks, and probably in excess of those that under revised arrangements it could prudently deposit with those banks as at present constituted. The chief result looked for from the increased deposits would be a reduction of the average rate of discount in India and of the range of seasonal variation in that rate.

#### *B.—Management of Paper Currency*

The next duty that would be naturally entrusted to a State Bank is one that would be entrusted on account of its close connection with the work of



acting as custodian of a large part of Government Balances. Under present practice the Treasury Balances of the Government of India and the Reserve of the Paper Currency Department are used to supplement one another, to the great advantage of the Government and the public. The working of the system may be illustrated by the following passage from a note by Sir J. Westland on the Management of the Government Balances, dated 20th November 1888, which has already been laid before the Commission: "Our normal currency

\* This figure is now obsolete

"reserve of coin we may put down at  
"six crores of rupees." This amount is,

"of course, by law sacred to the purpose of supporting the currency circulation, we cannot apply it to any treasury purpose. At the same time it is vastly more than in ordinary times is necessary for the purpose of actual encashment of notes. It is scattered over the various places from which we are by law authorised to issue notes. One perfectly legitimate operation of which we take great advantage is that we depend upon this Currency Reserve for facilities of rapid remittance. For example, we can make a remittance of, say, 20 lakhs, at a moment's notice, from Calcutta to Lahore by simply paying in 20 lakhs to Currency Office at Calcutta and obtaining at the Currency Office an order upon the Lahore Currency for 20 lakhs to be paid to treasury there. I think it is not too much to estimate this facility of remittance at a crore of rupees, that is to say, a balance of eight crores with this facility of remittance through currency, goes quite as far towards meeting our liabilities as a balance of nine crores would without this facility." Most of the figures used by Sir J. Westland in this note written 25 years ago need to be doubled in order to bring his statement up to date, and probably this is true of his estimate of the value of the assistance that the Government Treasury Balances derive from the Paper Currency Reserve under the system of joint management that he describes. If so, any considerable interference with the working of the system (such as would almost certainly result from the transfer of the greater part of the Government Treasury Balances to a State Bank unaccompanied by a transfer of the management of the Paper Currency Department) would be inconvenient to the public and to the Government, and seriously uneconomical. It may therefore be assumed that, if a State Bank held the greater part of the Treasury Balances, it would also be entrusted with the management of the Paper Currency.

*C—Participation in the sale of Drafts on India for meeting the Secretary of State's requirements.*

The form in which the Paper Currency Reserve from time to time stands, and consequently the work of managing the Paper Currency system as a whole, are considerably affected by the manner in which the sale of Bills of Exchange and Telegraphic Transfers on India needed to provide for India Office disbursements is conducted. *E.g.*, if such remittances were sold very sparingly, the importation to India of sovereigns (to be tendered to the Government in exchange for rupees and to be ultimately

\* This is the effect of the notifications printed at the end of Parliamentary Paper 495 of 1913 ("East India Mint for Gold Coinage")

located in the Paper Currency Reserve<sup>2</sup>)

would probably take place on so large a scale as to be embarrassing to the administration responsible for the management of the Paper Currency. Conversely, if remittances were sold with great freedom and at a comparatively low price, the importation of sovereigns to India might cease and the stock held in the Paper Currency Reserve might be exhausted. It may be taken for granted that the desirability of avoiding both these results is generally recognised, and, in order to avoid them, it would be natural and convenient that the authority responsible for the management of the Paper Currency should have a share in the work of selling the bills of exchange and telegraphic transfers on India needed to meet India Office disbursements. It may therefore be assumed that participation in this work would be one of the duties or privileges of any State Bank entrusted with the custody of a large part of the balances of the Government of India and with the management of the Paper Currency. The method of participation is discussed in paragraph 7 below.

*Duties and Privileges that would not be entrusted to it.*

6 The three duties mentioned in (A), (B), and (C) above appear to be those which a State Bank would naturally assume. Before considering in detail how (and especially in what relationship to the Government) it would discharge them, it may be well to mention some duties and privileges which it would appear undesirable that the Bank should assume or that the Government should wish to impose or grant.—(1) It may be said with confidence that no bank would accept the responsibility for “the convertibility of the rupee” in the sense of undertaking a definite obligation to provide sovereigns for the public in exchange for rupees without limit of amount. All that a bank could be expected to do is to issue sovereigns, when it has them, to the public in exchange for rupees at the rate of 1l = Rs 15, as the Government now does. (2) It may be said with equal confidence that no bank would accept an unlimited obligation (except so far as it acted as the agent of the Government) to sell bills on London at a fixed rate and without limit of amount in order to support exchange. (3) In view of what is said in (2), it appears natural that the responsibility for the management of the Gold Standard Reserve should remain with the Government, though as a matter of convenience the carrying out of particular transactions relating to it (including the sale as agent of the Government, of bills on London for the support of exchange) might be entrusted to a State Bank. (4) The question of allowing a State Bank to borrow in London on the security of its investments, in order to send money to India—on the lines of the similar proposals made

\* See “Papers relating to a proposal to establish a Central Bank in India (1899-1901), &c” (Appendix XV, page 355)

by the Presidency Banks in 1899-1905\*—raises certain difficulties of detail. It may be doubted whether such loans would be obtainable in large amounts with such ease as was contemplated by the Presidency Banks in 1899-1905. If they were effected, the natural method of placing the proceeds at the disposal of the Bank in India would be to pay the money in gold to the Paper Currency Reserve in India or England, and to transfer rupees thence to the banking resources of the State Bank. If the gold was shipped to India for this purpose, the transaction would be simple, but perhaps not profitable to the State Bank. If the gold was paid in to the Currency Chest in London, some arrangement would be necessary (in order to avoid unfair competition with the Exchange Banks) to prevent the State Bank from making the transfer to itself of rupees in India at a lower rate of exchange than that at which it was selling drafts on India to the Exchange Banks. It is doubtful whether, under these conditions, a State Bank would find it worth while to enter at all into transactions of a kind so different from its normal business. (5) The balance of considerations seems clearly against allowing a State Bank to receive deposits in London. If deposits in London were allowed, the object would be to enable the money to be remitted (presumably by one of the methods mentioned in (4)) to India to be placed by the Bank at the disposal of trade, but the liability to withdrawals by the London depositors, involving the automatic reduction of the amount at the disposal of the Bank and of trade in India, might be seriously inconvenient. (6) There appears to be no reason why the Bank should enjoy in relation to the coinage any special position such as was contemplated by Mr A de Rothschild (see paragraph 3 above). The Bank would, no doubt, regularly issue rupees to the public in exchange for sovereigns at the rate of Rs 15 = 1l, but it would replenish its stock of rupees when necessary by getting them from the Government under the procedure laid down in the Notifications of

1893 printed at the end of Parliamentary Paper 495 of 1913\*. In this respect it would be in exactly the same position as any other bank, or indeed any member of the general public: and in such a matter as coinage (which is an exercise of one of the rights of sovereignty), there is no reason why it should be in any other position.

*Methods of Business*

7. Assuming that the business of a State Bank would be.—  
To hold as Bankers a large part of the Government Balances;  
To manage the Paper Currency;

To take part in the sale of drafts on India for meeting the Secretary of State's requirements,

it is necessary to consider what would be Bank's methods of business and its relations with the Government. The most convenient course will be to consider the questions that arise under each of the three several branches of business.

*Holding of Government Balances*—On the first question that arises in connection with the holding of the Government Balances in India, viz., whether the whole or only a part, and if so what part, of those balances should be lodged with a State Bank, all that can be said at present is that, if the establishment of a State Bank is to be justified at all, the amount of Government Balances lodged with it must appreciably exceed the aggregate amount now lodged with the Presidency Banks. It would be useless in such a Memorandum as the present to say more, because it will be universally recognised that the matter is one in which the Government of India must have the preponderating voice.

The second question is as to the relationship with the Government required by the Bank's holding of a considerably increased portion of the Government Balances. The conditions to be satisfied are that the Bank must be conducted on generally sound principles, and that the Government must have all reasonable certainty of being able to withdraw without difficulty or delay whatever part of the amount at its credit it needs at any time for the purpose of meeting its disbursements. Two possible methods of satisfying these conditions might be advocated, viz.—(1) that the Bank should act under a code of rules sanctioned by the Government but that the Government or its representatives should take no part in the management, (2) that the Government should directly or through Government directors take part in the management of the Bank, a scheme which is equally compatible with the existence and the non-existence of a set of rules of business sanctioned by the Government. The second alternative seems clearly preferable. It is supported by the precedents of the Bank of France, the German Reichsbank, the Austro-Hungarian Bank, the Bank of Russia, and the Bank of Japan,\*

\* See Conant *History of Modern Banks of Issue* (New York and London, 1909), pages 69, 201, 233, 260, 557.

Balances of the Government of India, &c"† shows that a set of rules such as

† See also the correspondence and notes, relating to an incident in 1888, printed on pages 36-41 of the paper accompanying my Memorandum on 'Location and Management, &c' (Appendix II)

is embodied in the Presidency Banks Act has not always sufficed to prevent difficulty and delay in the withdrawal by the Government of money standing to its credit in those Banks. Any additional rules intended to safeguard the interests of the Government as chief depositor would presumably take the form of provisions such as were suggested by the Government of India in their letter to the Secretary of State, No 264, dated 21st July 1904, paragraphs 19-21,‡ requiring either

‡ This letter is included in the "Papers relating to a proposal to establish a Central Bank in India (1899-1901) &c" (Appendix XV, pages 441-2)

absolutely or subject to a penalty the maintenance by the Bank of a minimum proportion of cash to liabilities. Such provisions are likely to be worse than useless. They would not be directly operative, and might possibly have little restraining effect, so long as the cash was above the minimum proportion, when it had fallen to that level, the provisions would become operative either by absolutely immobilising the Bank's residuum of cash or by limiting its use by restrictions not necessarily having any appropriateness to the situation that would then have to be faced. In either case inconvenience would certainly follow and possibly panic. The alternative method of exercising Government control by the appointment of Government directors is free from all these disadvantages. If the directors are well chosen, their presence ought not to hinder the Bank in the efficient conduct of its business either in ordinary times or in emergencies, and would be a safeguard, such as would be required alike by the direct interest of the Government and by public opinion, against rash trading. Government directors could not, of course, prevent all possibility of financial crises due to such causes as war, imprudent trading by Indian merchants, or trouble in other countries, and

it may be argued that the Government, by its connection with a Bank, would be liable to a greater degree than now to be embarrassed by such crises. But the Government has not in the past stood aloof when such crises have occurred in India, and its control over a State Bank would presumably lessen the risk of their occurrence.

Subject to this official control, a State Bank would presumably do its banking business in India in much the same way as the Presidency Banks now do.

*Management of Paper Currency*—This work would presumably be done by a State Bank under precisely the same conditions under which the Paper Currency Department now does it. Its transfer to the Bank would increase the necessity for the appointment of Government directors, because no one would seriously propose that the 23,200,000*l* in sovereigns, 13,500,000*l* in rupees, and 9,300,000*l* in securities now (9th July 1913) held by the Government as the Paper Currency Reserve, should be handed over to a private enterprise Bank free from detailed Government control.

*Participation in sale of Bills and Telegraphic Transfers on India*—The reasons which appear to necessitate the participation by a State Bank in the sale of drafts on India have been given in paragraph 5 (C) above, and appear to be conclusive. They involve the establishment of a London office of the Bank. But it would be impossible to leave the management of the sales under the uncontrolled management of the London office of the Bank, if this were done, the Bank might so regulate the sales that, when it held large Government balances in India and opportunities occurred for remitting to London what the Secretary of State needed to meet his disbursements, the opportunities would not be taken, and the Secretary of State would be without the funds that he needed in London. This matter is one of such vital importance to the Secretary of State and the Government of India that the London Office of the Bank in selling drafts on India would have to act in close co-operation with, and (in case of need) under the control of, a representative or representatives of the Secretary of State. The position created by the presence at the London Office of a Government representative, ordinarily acting in co-operation with the representatives of the Bank, but with great powers of control in reserve, may at first appear anomalous, but it would be precisely similar to the position of the Government director in London of Guaranteed and other Indian Railway Companies who has, under the contracts between the various Indian railway companies and the Government, "power to exercise at his discretion an absolute veto in all proceedings whatever at the Board of Directors." The co-existence of this power with the comparatively independent discharge by the Boards of Directors of very important duties constitutes so unusual a system that, if its establishment were now proposed for the first time, it would probably be declared to be impracticable. But it has actually been in operation for many years, and has worked with remarkable smoothness.

#### *Relations with the India Office*

8 The part that would be taken by the Bank in the transfer of funds between India and London, the work of its London Office, and the relations between its London Office and the India Office, seem to need some further elucidation in detail than has been given above, and the following remarks will, it is hoped, supply what is needed—

(A) It has been tacitly assumed above that the Bank's work in connection with exchange business would be confined to the sale by its London Office of drafts on India under conditions as similar as possible to those under which Council Bills and Telegraphic Transfers are now sold by the India Office, and the sale, as agent for Government, of bills on London for the support of exchange. This is not the only method by which a State Bank could take part in exchange business, since it would obviously be possible, if desirable, to allow it in addition to buy mercantile bills in India and in London and to sell drafts on London on its own account. The reasons in favour of confining its exchange business within the limits suggested above are that—

- (1) The special qualifications of its directors in India would be their knowledge of trade conditions in India. They would not be in a favourable position for acquiring the expert knowledge of con-

ditions outside India that is required for the conduct of exchange business in the larger sense, and it might be impracticable, and would probably be undesirable, for the Bank to conduct such business in reliance on the possession of its London representatives of the necessary knowledge

- (2) The competition in general exchange business of a State Bank with the existing Exchange Banks would probably be very prejudicial to the latter, and Indian trade would no doubt be injured if deprived to any great extent of the advantage arising from their large capital, wide connections, and great knowledge and experience

(B) After the establishment of a State Bank, the Secretary of State would continue to obtain part of the funds required to meet his disbursements in England from the proceeds of loans and Miscellaneous Receipts from other Government departments, &c, and it would be necessary that money so obtained should, as now, be paid to the Secretary of State's

account at the Bank of England, as  
required by 21 & 22 Vict, c 106, s 43<sup>u</sup>

\* Printed on page 354

The natural procedure for the supply of the remainder (which would ordinarily be the larger part) of the money required by the Secretary of State would be as follows. He would inform the Bank at the beginning of each year of the amount and date of his estimated requirements during the year, and would at intervals revise the estimate. The London office of the Bank would endeavour, acting with the co-operation, and if necessary under the control, of the India Office representative, to sell drafts on India to an amount sufficient to meet the Secretary of State's requirements, and would sell in excess of this amount when this seemed advisable in order to satisfy trade demands or for other reasons (*e.g.*, when the total Government balances were high, and it seemed desirable to defray part of the capital expenditure of the current or a subsequent year from them rather than from loans issued in the United Kingdom). The proceeds of the sale of drafts would, in the first instance, be part of the general assets of the Bank held against its liabilities to the Government and other depositors, and would be used by it in such manner (*e.g.*, for the grant to approved borrowers of loans against security) as seemed best, the Bank acting under such Government control as might be exercised. When the Secretary of State desired to draw money from the Bank to meet his disbursements, he would give instructions for the transfer of the necessary sum to the account kept by him at the Bank of England under 21 & 22 Vict, c 106, s 43. The equivalent (at a rate of exchange calculated in accordance with rules that would have to be made as part of the initial arrangements between the Bank and the Government) would be written off the total of the Government deposits in the general account between the Bank and the Government of India.

At times when the total balances deposited in the Bank by the Government of India were large and when favourable trade, setting up a heavy demand for drafts on India, caused large amounts to be temporarily held by the Bank in London, the Bank's balance in London would probably be much in excess of the Secretary of State's balance, just as (according to common belief) the balance of the Bank of Japan in London is as a rule much larger than the Japanese Government's balance there.

At times of unfavourable trade conditions, the Bank would no doubt be occasionally unable to supply from its ordinary resources in England the full amount needed by the Secretary of State to meet his necessary disbursements in London. It would then be a matter for consideration which of the following methods should be used to keep the Secretary of State in funds —

Shipment of sovereigns from India either by the Government of India direct to the Secretary of State or by the Bank in India to its London office,

Withdrawal of money from the Gold Standard Reserve or Paper Currency Reserve in London against payment of the corresponding amount to those Reserves by the Government of India in India,

Issue of loans by the Secretary of State,

Borrowing by the Bank in London in order to place money at the Secretary of State's disposal.

*Capital, Division of Profits, Provision for revision or termination of relations between State Bank and Government*

The following points are important enough to need consideration at the present stage —

*Amount of Capital of State Bank* — In the discussion of 1892–1901 it was frequently assumed that an increase of the capital of the three Presidency Banks would be required as part of any scheme for their amalgamation into a Central Bank. Such an increase would be desirable in the event of their amalgamation into a State Bank; but it is possible that this condition might prove fatal to any scheme and might be waived without serious disadvantage. The chief facts bearing on these points are as follows —

On 31st March 1912\* the Capital and Reserves of the Presidency Banks were as follows —

	Bank of Bengal	Bank of Madras	Bank of Bombay	Total
Capital	£ 1,333,000	£ 400,000	£ 667,000	£ 2,400,000
Reserve	£ 1,200,000	£ 353,000	£ 707,000	£ 2,260,000
Total	£ 2,533,000	£ 753,000	£ 1,374,000	£ 4,660,000

The last weekly statements published by the Banks in March 1912, showed the Government balances held by them as follows —

Bank of Bengal	Bank of Madras	Bank of Bombay	Total
£ 1,278,000	£ 708,000	£ 1,142,000	£ 3,128,000

The money held by the Government in Reserve Treasuries on 31st March 1912 amounted to 3,506,000*l*. If this had been reduced to an Emergency Reserve of 1,000,000*l* by the transfer of 2,506,000*l* to the Presidency Banks, the total Government deposit in the Banks would have been approximately 5,634,000*l*,† or 121† per cent of their aggregate capital and reserves. If the Banks had held half of the additional 2,506,000*l* in coin or currency

notes, the total amount so held, which was actually 8,831,000*l* would have been raised to approximately 10,084,000*l*† of which the Government deposit of 5,634,000*l*† would have represented 55·8 per cent†. These percentages may be taken as representing very roughly the highest proportion that Government deposits would bear in normal times to the Capital and Reserves and to the Coin and Currency Notes of a State Bank (in its early days) formed by the amalgamation of the three Presidency Banks without an increase of their capital. They suggest that an increase of capital would be desirable, if practicable.

\* This date is given because the Government balance was then normal, whereas on 31st March 1913 it was abnormally high. By 31st March 1913 the Reserves of the three Presidency Banks had risen to the following amounts —

Bank of Bengal	Bank of Madras	Bank of Bombay	Total
£ 1,233,000	£ 473,000	£ 707,000	£ 2,413,000

But there are few points more prominent in the correspondence of 1899-1901 than the unwillingness of the Presidency Banks to increase their capital, owing to the difficulty anticipated in the way of finding profitable employment for the additional amount, taking the year as a whole,† and the difficulty would be greater under a scheme that included the deposit of larger Government balances with one amalgamated bank, since employment would have to be found for the additional Government deposits as well as for additional stockholders' capital. It might, therefore, prove to be impracticable to insist on an increase of the latter as one of the conditions of a scheme of amalgamation, and, if this were the case, it would perhaps be best that the Government should be content to rely on an increase of its own control, rather than on an increase of stockholders' capital, for the additional security required in respect of its larger deposits.

*Question of Sterling or Rupee Capital*—In the discussion of 1899-1901 the Secretary of State (Despatch of 24th August 1899, paragraph 12, page 357), and the Government of India (Letter of 18th January 1900, paragraph 13, page 405), contemplated that a Central Bank of India, if formed, would have a sterling capital. These opinions were no doubt due to the fact that, at the time of their expression, the memory of the fluctuations in the sterling value of the rupee was still fresh, so that a bank on a sterling basis seemed more likely to command confidence and to attract capital than one on a rupee basis. In present circumstances it seems more natural that the capital of an Indian State Bank should be expressed in rupee currency, which is the chief money of account in India.

*Government participation in Profits*—Under the scheme that has been sketched above, it would be obviously reasonable that the Government should share in the profits of the Bank, and its share would naturally be a proportion of the profits corresponding roughly to the proportion between (a) the excess of its average deposits in each year over a fixed sum representing its normal deposits with the three Presidency Banks under existing conditions, and (b) the capital and reserve of the Bank. It seems scarcely worth while at the present stage to elaborate detailed suggestions on this matter but it may be mentioned that such profit-sharing partnerships between the Government and companies are a familiar feature in Indian administration, since most of the important railway systems of India are worked under similar agreements, and the large experience of the India Office and the Government of India in drawing up such agreements should be of considerable value in connection with the establishment of a State Bank.

*Revision or Termination of Arrangements between Government of India and State Bank*—In view of the importance of the duties that would be entrusted by the Government to a State Bank, it would be clearly necessary to include in the agreement, charter, or other instrument by which it was constituted some provision, such as are included in the constitutions of the Bank of France,\* the Bank of Japan,† and the Reichsbank,‡ for enabling

\* Conant *History of Modern Banks of Issue*, p. 67

† *Ibid* p. 557

‡ See *German Imperial Banking Laws*, issued by the National Monetary Commission, Washington Government Printing Office 1910, p. 52

§ Under the German Bank Act of 1875 the Government had the right of discontinuing the Reichsbank and buying up its property on certain terms, (*German Imperial Banking Laws*, pp. 52-3) on 1st January 1891 and thereafter at the expiration of every ten-year period. It could have done so at a considerable profit in 1911 (See *Renewal of Reichsbank Charter* issued by National Monetary Commission 1910, p. 233), but the use that it made of the option was to reduce the share of profit distributable to the shareholders. (See *The Reichsbank*, issued as above, page 33.)

the relations between the Government and the Bank to be revised or terminated at stated times or on the occurrence of specified events. Such provision would no doubt be made in the form of a clause enabling either party to terminate its relations with the other, but, in any circumstances that are likely to occur, notice of termination would probably be given, if at all, only as a means of securing an alteration in the division of profits§ or in the rules or practice governing the conduct of business.

## III.

ADVANTAGES AND DISADVANTAGES OF THE SCHEME AND  
PROBABILITY OR OTHERWISE OF ITS ADOPTION

9 The object of Section II was to set forth suggestions as to the lines on which it appears that a State Bank can best be established, if one is to be established at all. In the present section the attempt is made to summarise the considerations for and against the establishment of the Bank and as to the probability or otherwise of its establishment.

*Advantages of a State Bank,*

(a) The chief advantage of a State Bank would be that the whole, or a

## Erratum Slip.

## ROYAL COMMISSION ON INDIAN FINANCE AND CURRENCY

Appendices, page 350

Line 37. For "the capital and reserve of the Bank," read "the capital, reserve, and other resources of the Bank."

	£	£	£
30th June 1910 - -	5,601,667	1,000,000	4,601,667
30th September 1910 - -	4,789,133	1,000,000	3,789,133
31st December 1910 - -	1,877,333	1,000,000	877,333
31st March 1911 - -	4,437,667	1,000,000	3,437,667
30th June 1911 - -	5,454,300	1,000,000	4,454,300
30th September 1911 - -	3,791,500	1,000,000	2,791,500
31st December 1911 - -	2,143,300	1,000,000	1,143,300
31st March 1912 - -	3,506,000	1,000,000	2,506,000

There can be little doubt that the additional amount that would have been held by the Bank in the first quarter of the calendar year, which is the period of greatest stringency in India, would have kept the discount rate below the maximum that was actually reached.

(b) If the practice of lending at certain times from the Paper Currency Reserve is to be introduced, the best agency for carrying it out would probably be a State Bank in charge of the Reserve and at the same time in touch with the commercial community.

(c) The existing system under which Council Bills and Telegraphic Transfers are sold by the Secretary of State involves the transaction by him and his staff of work outside the ordinary sphere of a Government Office. There would, therefore, perhaps be some advantage in the cessation of the Secretary of State's sales of Council Bills and the substitution of the sale, by the London Office of a State Bank, of drafts on its Indian offices.



(d) Similarly there would be an advantage in the reduction (*see* paragraph 8 (B) above) of the cash balance held by the India Office and consequently of the work and responsibility (of a nature not ordinarily falling on a Government office) undertaken by it in connection with the placing of money on loan or deposit

(e) The Government might occasionally find it advantageous to borrow temporarily from a State Bank (in India or England) instead of issuing a loan

(f) The Government would derive a pecuniary advantage from its share in the profits of a State Bank, representing in effect interest received on the part of its balance taken from Reserve Treasuries and other places where it now lies idle

It will be noticed that this list of advantages does not assume that the establishment of a State Bank would enable economies of any importance to be effected by the reduction of Government establishments, or that it would lead to any increase in the popularity of the Paper Currency or in the efficiency of its management. Neither of these results seems probable. As regards the latter, the growth of the note circulation and the additional facilities for encashment that have from time to time been provided under Government management seem to indicate that the efficiency attained under that system is probably as great as would be attained under management by a bank.

*Disadvantages of a State Bank, and arguments against its establishment*

(g) The Government of India and the Secretary of State, by surrendering the custody of Government money to a bank to a greater extent than now, might experience difficulty and delay in obtaining it when required

(h) The advantages mentioned in (a) and (b) above could be obtained to a considerable extent in the absence of a State Bank (but without the additional security to the Government provided by Government participation in management) by an extension of the present practice of placing part of the Treasury Balances on deposit with Presidency Banks and the introduction of a similar practice in connection with the Paper Currency Reserve

(i) The amalgamation of the three Presidency Banks into one State Bank, with its headquarters presumably at Calcutta, would involve a considerable change in the position of the Banks of Bombay and Madras. They are now independent and have an undivided responsibility, and in this position have probably acquired valuable and minute knowledge of trade conditions in their respective areas. The diminution of their independence and responsibility might have a lowering effect on their activity, knowledge, and efficiency. And they might be occasionally overruled from headquarters on matters on which it would be better that their judgment, based on local knowledge, should be followed.

(j) Some questions, not quite easy to settle, might arise as to the relations between the London Office and the Head Office in India regarding the sale of remittances in India, since the Secretary of State, acting through the Government representative at the London Office, might find occasion to use his power of ultimate control in a way that did not commend itself to the Head Office.

This list of disadvantages does not include any reference to the possibility of loss to the Government through the transfer of the management of the Paper Currency. It may be assumed that one of the conditions of the establishment of a State Bank, including the transfer to it of the management of the Paper Currency, would be the retention by the Government of the net profits of the Note issue.

Neither in the list of advantages nor in that of disadvantages is anything said about the effect of the establishment of a State Bank on the amount of

\* The view that the import of gold to, and its export from, India would be materially affected by the establishment of a State bank appears to rest on two assumptions, viz (1) That the establishment of a State bank would reduce the average level and the fluctuations of the rate of discount in India, (2) That that rate has an important influence on the flow of gold to and from India.

The first assumption is no doubt correct

There seems for the following reasons to be little substance in the second—(A) Experience shows that the flow of gold to India is influenced mainly by the magnitude of the trade balance due to India, the freedom or otherwise with which the Secretary of State sells Council Bills and Telegraphic Transfers, and the price (varying with the changes in the Australian and Egyptian exchanges) at which sovereigns can be obtained for shipment from Australia and Egypt to India. There is little or no evidence to show that it is materially affected by a rise in the rate of discount in India or that any effect due to that cause works in the direction of attracting gold to India. Indeed, a rise in the Indian rate of discount tends, in the first instance at least, to induce the exchange banks to buy telegraphic transfers from the Secretary of State in preference to making remittances by the slower method of shipping gold. (B) A reduction in the rate of discount in India would obviously not encourage the flow of gold from India unless exchange fell to gold exporting point. Such a fall is of very rare occurrence, † Page 90 and Statement D and the facts mentioned in my

Memorandum on the Gold Standard Reserve† show how little evidence there is to support the view that such a fall, when it occurs, tends to lead to the export of gold

in 1901 (as shown in the passage quoted in the Prefatory Note above) to the suggestions for establishing a Central Bank, and may therefore be inclined to consider favourably the scheme sketched in the present Memorandum, which is in effect a development in more definite form of those suggestions. The position of the Presidency Banks in considering a scheme for a State Bank must necessarily be one of some difficulty. Whatever advantages to the public and the Banks may be anticipated from the establishment of a State Bank must be accompanied, as shown in 9 (t) above, by some possibility of disadvantage to at least the two banks not situated at the place which would be the headquarters of a State Bank. The recognition of this—described

‡ Letter from Government of India to Secretary of State, dated 13th June 1901, paragraph 13, page 428

by the Government of India in 1901, with perhaps a tinge of unnecessary harshness, as "provincial and personal jealousies"‡—appears to have been one of the chief causes of the failure of the scheme discussed from 1899 to 1901. If the Royal Commission reports that a scheme for a State Bank deserves active consideration, the Directors and Shareholders of the Presidency Banks will be bound to give due weight to the danger of disadvantageous effects on their own status and efficiency, but it is at least possible that they may regard this danger as too remote to constitute a serious obstacle to a scheme which appears to hold out some prospect of advantage to the Indian commercial public as a whole.

gold imported to, exported from\*, or circulating in India, on the maintenance of the exchange value of the rupee, or on the stability and development of the existing currency system. There is no reason to suppose that the establishment of a State Bank would have any effect in any of these directions.

*Probability or otherwise of a State Bank being established*

10 The probability of a State Bank being established depends mainly on the views taken by the Secretary of State, the Government of India, and the Presidency Banks.

The first two authorities were well disposed

STATUTORY ENACTMENTS REGARDING THE ACCOUNT OF THE SECRETARY OF  
STATE IN COUNCIL OF INDIA AT THE BANK OF ENGLAND

21 & 22 Vict, c. 106 (Act for the Better Government of India),  
Section 43

XLIII Such Part of the Revenues of *India* as shall be from Time to Time remitted to *Great Britain*, and all Monies of the said Company in their Treasury or under the Care of their Cashier, and all other Monies in *Great Britain* of the said Company, or which would have been received by them in *Great Britain* if this Act had not been passed, and all Monies arising or accruing in *Great Britain* from any Property or Rights vested in Her Majesty by this Act, or from the Sale or Disposition thereof shall be paid to the Secretary of State in Council, to be applied for the Purposes of this Act, and all such Monies, except as herein-after otherwise provided, shall be paid into the Bank of *England*, to the Credit of an Account to be opened by the Governor and Company of the Bank of *England*, to be intituled "The Account of the Secretary of State in Council of *India*," and all Monies to be placed to the Credit of such Account under this Act shall be paid out upon Drafts or Orders signed by Three Members of the Council, and countersigned by the Secretary of State or One of his Under Secretaries, and such Account shall be a public Account. Provided always, that the Secretary of State in Council may cause to be kept, from Time to Time, under the Care of their Cashier, in an Account to be kept at the Bank of *England*, such Sum or Sums of Money as they may deem necessary for the Payments now made out of Money under the Care of the Cashier of the said Company

22 & 23 Vict, c. 41 (Act to amend the Act for the Better Government  
of India), Section 3

III. Notwithstanding anything contained in the said Act, it shall be lawful for the Governor and Company of the Bank of *England* to pay out all or any of the Moneys paid to the Credit of the Account opened under the said Act by the Governor and Company of the Bank of *England*, intituled "The Account of the Secretary of State in Council of *India*," upon any Drafts or Orders signed by the Accountant-General on the Establishment of the Secretary of State in Council, or by either of the Two Senior Clerks in the Department of the said Accountant-General, and countersigned in such Manner as the Secretary of State for *India* in Council shall from Time to Time order or establish; and any Draft or Order signed and counter-signed as aforesaid, or in manner directed by the said Act, shall effectually discharge the Bank of *England* for all Moneys paid upon the same

## APPENDIX XV

PAPERS RELATING TO A PROPOSAL TO ESTABLISH A CENTRAL BANK  
IN INDIA (1899-1901) AND TO CHANGES AND PROPOSED CHANGES IN THE  
PRESIDENCY BANKS ACT (1904-1906), HANDED IN BY  
MR L ABRAHAMS, C B, ASSISTANT UNDER SECRETARY OF  
STATE FOR INDIA

*Note*—As explained on page 363, passages relating to the proposal (carried out in the Presidency Banks (Amendment) Act, 1907) to allow the Presidency Banks to advance on securities issued by State-aided railways and District Boards and to invest in such securities have been omitted from the present collection as being no longer of interest. The omissions are indicated by rows of asterisks

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Extract paragraph 9 of Despatch from the Secretary of State for India to the Government of India, No 140 (Financial), dated 25th July 1899, dealing with the proposals of the Indian Currency Committee, 1898

I desire particularly to commend to your attention the important recommendation with regard to the improvement and concentration of banking facilities contained in the separate report of Mr Hambro

Mr E A Hambro's remarks referred to above.

Although I am aware that the question of the banking facilities of India was not referred to the Committee, I venture to call special attention to the first part of paragraph 22 where it is pointed out that they have not of late years kept pace with the increasing trade, and, further, to draw attention to the fact that it has been considered wise in Europe to entrust the carrying out of currency laws to banks established or strengthened for that purpose. In my opinion, a strong bank, properly constituted, would be a powerful assistant in giving effect to any regulation having the convertibility of the rupee in view, and that, working under proper currency regulations, such a bank would be likely to carry them out in a more effective way, and in a manner more in harmony with the trade wants of the country, than any Government Department, however well administered, could possibly do.

I venture to call attention to this point because I believe that the success of the recommendations of the Committee, if adopted, will very much depend on the banking wants of the country being assisted in times of pressure, and curtailed in times of slackness, and thus, in my opinion, could only be done by the establishment of some institution having ample facilities at its disposal, and framed on somewhat similar lines to those of either the Bank of England or the Bank of France

E A HAMBRO

Extract paragraph 12 of Letter from the Government of India to the Secretary of State for India, No 301, dated the 24th August 1899

12 It only remains for us to discuss Mr Hambro's proposal for the establishment of a strong Bank. There can, we think, be no question that, for the purpose of the effective maintenance of the gold standard, a Bank with a large sterling capital, and constituted on the model of the Bank of England or Bank of France, would be a very powerful support to the State. Such a Bank would be better able to measure and deal with the requirements of trade for foreign remittances than any Government, and it would have the capacity, which a Government Department cannot be expected to possess, of preventing unnecessary export of gold without hampering trade. An institution of the kind would also be most effective in promoting the circulation of gold. It would, again, be an effective agent for securing an increased circulation of fiduciary money; and we might find it possible to entrust it with the management of the Government Paper Currency. Apart altogether, however, from the question of the gold standard, we consider that the constitution of such a Bank is desirable. The three Presidency Banks do not command separately or together a capital adequate to the commercial requirements of the country or sufficient to prevent excessive fluctuations in the rates of discount at different seasons of the year, while the legislative restrictions under which they conduct their business and the sharp division of their respective spheres of influence, however necessary or expedient at a former period, now form an obstacle to business. The Presidency Banks, however, have in the past done good service and the Government owe them full consideration apart from any actual contract or legal obligations. We think, therefore, that in the first instance the attempt should be made to absorb the three existing banks in one strong establishment, constituted on a sterling basis, care being taken that the interests of holders of shares in the banks should be fully protected and secured. The whole question is one that will require careful consideration, and we propose to address Your Lordship again on the subject after ascertaining the views of the banks and of the mercantile community.

No 5123-A, dated 10th November 1899

From H HESELTINE, Esq, Assistant Secretary  
to the Government of India, Finance and Commerce Department,  
Bengal  
Bombay  
Madras  
to the CHAIRMAN Rangoon Chamber of Commerce  
Karachi  
Upper India

The Government of India have recently had under consideration the question of amending the Presidency Banks Act, 1876, with a view to relaxing the restrictions on the business of the banks which are imposed by Sections 36 and 37 of the Act. The circumstances under which this question has been raised and the attitude which the Government of India are at present inclined to adopt are explained in the speeches\* made by His Excellency the Viceroy and the Honourable Mr Dawkins at a meeting of the Legislative Council of the Governor General held on the 1st September. For the reasons there given, the examination of the question was postponed for a time, but it is probable that it will be taken in hand at an early date. In view of this possibility the Government of India would be glad to be favoured with the opinion of the Chamber on the proposal to relax the restrictions imposed by the Act and with suggestions as to the precise directions in which any relaxation should be made. I am to ask that the Chamber will consider the matter with special reference to the existing capital of the Banks

Copy forwarded to the Secretary and Treasurer, Bank of Bengal  
Bombay  
Madras

Extract from the proceedings of the Council of the Governor General of India assembled for the purpose of making Laws and Regulations under the provisions of the Indian Councils Acts, 1861 and 1892 (24 and 25 Vict, c 67, and 55 and 56 Vict, c 14), at its meeting on Friday, the 1st September 1899

## PRESIDENCY BANKS BILL

The Honourable Mr Dawkins moved that the Bill further to amend the Presidency Banks Act, 1876, be taken into consideration. He said.—

“Last Friday, when asking leave to introduce this Bill, I reminded Council that strict limitations were imposed by the legislature on the business in which the Presidency Banks are authorised to deal, and I added that these limitations, to some extent, appeared to have survived the times and conditions which had rendered them necessary. With the permission of Your Excellency, I would like to amplify the opinion which I then expressed incidentally. Upon its becoming known that we intended to introduce the purely formal amendment now before us, we were informed, through the Comptroller-General, that the Bank of Bengal desired us to reconsider, in connection with this amendment, the refusal of Lord Elgin's Government to add the securities of assisted branch lines to the securities of railways guaranteed by Government in which alone the Presidency Banks may deal. We also received a telegram from the Madras Chamber of Commerce, asking us to introduce further legislation to empower the Presidency Banks to deal in the securities issued by District Boards with the authority of Government. The Presidency Bank of Madras and the Madras Government support the proposal.

“We have come to the conclusion, a conclusion which, I think, must commend itself to every reasonable man, that we could not tack on, in a hurry, legislation involving questions of principle to a purely formal amendment. Nor could we defer passing this formal amendment and give time for the mature consideration of these larger issues, as this amendment is urgent, its object being to enable the Presidency Bank of Bombay to deal in the securities of the loan already issued by the Bombay Improvement Trust.

\* Copy enclosed.

"At the same time we do not wish to return a simple *non-possumus* to the requests of the Bengal Bank and of the Madras Chamber of Commerce, or what is perhaps more disheartening, to postpone their consideration indefinitely. In the opinion of Government the time has come for reviewing the question of these restrictions on the bank's operation, as there is ground for thinking that they may, to some extent, have survived the reasons for their imposition, and do unnecessarily hamper business and enterprise.

"The origin of these restrictions is, I think, generally known, but perhaps I may be allowed to refer to it. Formerly, as Honourable Members are aware, Government had a pecuniary interest in the Presidency Banks and was largely concerned in, and responsible for, their management. In 1872, after the failure of the old Bank of Bombay, it was decided that Government should divest itself of its interest in the banks, and withdraw from active participation in their management. Protracted discussion took place for several years, and I find among the proceedings that a proposal was made, but not pressed, to allow the Presidency Banks the freedom and discretion of ordinary banks in dealing in shares and stock. It was natural that the proposal was not pressed, for the failure, involving Government in considerable loss, of the old Bombay Bank, which for some reason had been freed from the restrictions imposed upon the other Presidency Banks, was primarily attributed by the Commission of Inquiry to speculative dealings encouraged by the absence of such restrictions. It was therefore felt that the business of the Presidency Banks must still be subjected to strict limitations in view of a variety of circumstances and principally, of course, with the object of securing the safety of the Government balances entrusted to the Presidency Banks by special arrangement. Much has happened since 1876. new banks have grown up, new forms of enterprise have been started—but the principal factor remains constant—the Presidency Banks are still the custodians of the Government balances—and I do not think that any bank in India, which receives custody of the Government balances, can expect to be without restrictions on the class of business in which it may engage these public balances. Two considerations must be borne in mind. The Presidency Banks depend to a quite exceptional degree for their cash balances on the Government account. As Sir J. Westland showed, in the busy season nearly 80 to 90 per cent of these balances are supplied from the Government account—a fact which, added to the fluctuations in the rate of discount, may make us ask seriously how far the Presidency Banks have sufficient capital to allow of the absorption of the resources they command in enterprises, the securities of which might not be easily realizable.

"Again the circumstances of India are peculiar. In England, if the Government were suddenly in need of money and the Bank of England had locked up the Government balances, it would not be of serious consequence. Money could be procured from a dozen other different quarters. In India, this would not be possible, and, indeed, we have a historic example in the embarrassment which the inability or reluctance of the banks to produce the money deposited with them brought upon Government when confronted with the sudden emergency of the Orissa Famine.

"I have thought it necessary to trouble Council with this retrospect and explanation, because we shall have to keep this central and vital consideration in view when we proceed to consider how far existing restrictions can be relaxed. But having uttered this word of caution, I may express my opinion that some relaxation is desirable and I may state that Government is prepared and has decided to examine the whole question exhaustively, and in no narrow spirit.

"There is, I think, no doubt that, as regards railways, the limitation of the banker's operations to the securities of guaranteed railways is a serious impediment to the promotion of those assisted railways which the Government has so often expressed a desire to encourage. I may say that this is the conviction of my Honourable Colleague Colonel Gardiner, whose great practical experience and knowledge lends much weight to his views, and I congratulate Council that my Honourable Colleague will be able to take part in the consideration of this question. He knows where the shoe pinches, and his familiarity with every branch of railway organisation and with railway finance will supply Government with valuable suggestions.



“To what precise extent we shall be able to authorise the Presidency Banks to deal in the securities of the various classes of assisted railways, I shall not of course be expected to indicate at this moment. But looking to the total capital of such branches and to the terms under which some of them are constructed, I do not think it will be impossible to devise such safeguards as would permit us to relax the prohibitions now placed upon the Presidency Banks in regard to dealing in some of their securities.

“I now pass to the question raised by Madras, that of authorising the Presidency Banks to deal in the securities issued by District Boards, although this question, I may say, is not unconnected with that of railway development, in so far as District Boards may, as in the case of the Tanjore Board, themselves guarantee railways, &c, &c.

“I think we may admit that this is a question presenting less difficulty. District Boards and Municipalities, in the securities of which latter the Presidency Banks may deal, are equally considered as local authorities under the Local Authorities Loans Act of 1879, and require the same sanction from the Local Governments for their loan operations. The Municipalities and Port Trusts of the three Presidency Towns and Bombay City Improvement Trust alone stand on a different footing, as in the case of their operations the sanction of the Government of India, in addition to that of the Local Government, is required. But we thought the whole question of enlarging the area of securities in which the Presidency Banks may deal, might well be considered before further legislation was undertaken. No prejudice to the District Boards is likely to arise from the delay. The request from Madras has not been previously pressed upon Government, and there is no urgency, for, as a matter of fact, the District Boards almost invariably prefer to borrow from Government to borrowing in the open market, as they can get better terms from Government. Up to the present moment only two District Boards have raised money in the open market.”

His Excellency the President said —

“I should like to add a few words upon the subject touched upon by the Honourable Mr Dawkins in the remarks to which we have just listened. The speech which he has made represents the views that are unanimously entertained by the Government of India. The question that has been raised by him is one, in my opinion, of great importance, and one upon which I should be grateful for the enlightenment and backing of public opinion. The Bill now before us, as he has told us, is one for a more or less formal amendment of the Presidency Banks Act of 1876, so as to admit to the list of securities, with which the banks are at present permitted to deal, a particular security which has only hitherto been excluded, because, when the Act was last re-enacted the Bombay City Improvement Trust had not yet been called into existence. The proposal, however, adumbrated by the Finance Member, contemplates still further extension of these securities in the future by including in them the scrip of subsidiary assisted railway companies.

“Now, under the existing law, the Presidency Banks are prohibited from dealing in them. We are disposed, as my Honourable Colleague has pointed out, to relax those restrictions, in the first place, in the interest of the banks so as to increase the scope of their operations, but, secondly, and still more, in the interest of the investing public, and of the general development of the country which we all have so much at heart. But here I must interpolate a word of caution. We are anxious to be generous, but we are bound to be prudent, and there is a certain point beyond which we cannot go.

“The Presidency Banks, as the Honourable Mr Dawkins has pointed out, are not like ordinary banks. No relaxation of restrictions, even if such were possible in an extreme degree, could make them so. They differ, because the bulk of their cash balances—or what I suppose I may call their loanable capital—is supplied by Government, and because, if we subtract this at any given moment they are not, as a rule, in possession of sufficient independent capital to enable them to conduct operations on a large scale. The Government, therefore, is under a peculiar responsibility for these banks, and we are bound to enforce special regulations for the protection and the security of the balances which we ourselves have provided. We cannot afford to jeopardise them in the interests of general philanthropy. Within these limits we desire to do all in our power to free the banks from artificial

bandages, and to give to them ample liberty of movement. But herein I should like to point out that a reciprocal obligation, in my judgment, is involved. We do not contemplate these steps merely in order to provide a new field for the employment of Government balances. What we want to do is to enlarge the opportunities available for the employment, in enterprises indigenous and beneficial to the country, of capital, both English and Native. It will be for the latter to profit by the occasion. The Government cannot do more than open the door. It will then be for the investing public to walk in.

"And here I am tempted to indulge in a further reflection. An examination of the existing system leads me to doubt whether the banking institutions of India are at all adequate to the growing needs of the country. This is a conviction that is gaining ground outside of India, and that I believe already exists in India itself. You will find substantial testimony to it in the speech delivered by the Secretary of State in the House of Commons in the Budget Debate three weeks ago, and you will notice that his sentiments on the subject were re-echoed by his predecessor, Sir Henry Fowler. Here we are at the end of the nineteenth century, with 22,500 miles of railway opened in this country, with the telegraph wires connecting all our important cities and centres, with business operations being conducted every year on a larger and increasing scale. Moreover, we are looking forward, if we can settle our currency difficulties, to a considerable expansion of financial and industrial enterprise. And yet, in respect of banking, it seems to me that we are behind the times. We are like some old-fashioned sailing ship, divided by solid wooden bulkheads into separate and cumbrous compartments. This is a state of affairs which it appears to me can hardly continue. I can well believe that local interests will require to be consulted, and we must be careful to see that no injustice is done. But I cannot think that any sectional prepossessions should be allowed to stand in the way of a consolidation and concentration of banking facilities which strike me as being required in the interests of the business accommodation and credit of the country. Should we succeed in effecting any such amalgamation—should we get any such central bank, established on a sterling basis, giving us access to the London market—then I think we might with safety dispense with many of the existing restrictions, because we should have, on the hypothesis of a common currency with England, a permanent and stable link between the Indian and English markets. This is a question worthy of serious examination, and which I submit, with these few introductory remarks, to the consideration of the financial and mercantile public."

The motion was put and agreed to.

The Honourable Mr Dawkins moved that the Bill be passed.

The motion was put and agreed to.

No 5124-A, dated 10th November 1899

From H HESELTINE, Esq, Assistant Secretary  
to the Government of India, Finance and Commerce Department,  
Madras  
Bombay  
Bengal  
to the SECRETARY to the Government of  
North-Western Provinces and Oudh.  
the Punjab  
Burma.

I am directed to forward a copy of a letter (and enclosures) addressed to the Chambers of Commerce, regarding a proposal to relax the restrictions on the business of the Presidency Banks which are imposed by Sections 36 and 37 of the Presidency Banks Act, 1876, and to request that, with the permission of His Excellency the Governor in Council, the Government of India may be favoured with the views of the Government of \_\_\_\_\_ on the question at an early date.

Dated 13th November 1899

From G D KER, Esq, Secretary and Treasurer, Bank of Madras,  
to the SECRETARY to the Government of India, Finance and Commerce  
Department

1 My Directors lately submitted, through the Government of Madras, a proposal for the consideration of the Government of India, to amend the Presidency Banks Act, so as to enable the banks to deal in securities issued by the District Boards with the authority of Government, and they observe that, while unable to take this matter into consideration with the formal amendment of the Act then before the Legislative Council, Government received this and other proposals not unfavourably, and 'is prepared and has decided to examine the whole question exhaustively and in no narrow "spirit"

My Directors desire to express their satisfaction at this intention of Government, for they have felt for some time that certain restrictions imposed by the Presidency Banks Act have, to use the words of the Finance Minister, "survived the reasons for their imposition, and do unnecessarily hamper business and enterprise"

My Directors desire now to draw the attention of Government to those provisions of the Act which they think require amendment at the present day, however necessary they may have been at the time the Act was framed and passed

2 Before detailing these proposals, I am desired to point out what seems to my Directors to be a misapprehension on the part of Government in regard to the amount of the Government balance with this bank relatively to other deposits and to the cash balance

In his speech at the Legislative Council on 1st September the Honourable Mr Dawkins said —

"The Presidency Banks depend to quite an exceptional degree for their cash balances on the Government Account As Sir James Westland showed, in the busy season nearly 80 to 90 per cent of these balances are supplied from the Government Account"

His Excellency the Viceroy subsequently remarked —

"The Presidency Banks are not like ordinary banks They differ, because the bulk of their cash balances—or what I suppose I may call their loanable capital—is supplied by Government, and because, if we subtract this at any given moment, they are not, as a rule, in possession of sufficient independent capital to enable them to conduct operations on a large scale"

3 These remarks, however appropriate to the time prior to the establishment of Reserve Treasuries, are, my Directors submit, inapplicable to this bank at the present day, for during the years which have passed since the establishment of Reserve Treasuries, the resources of the bank have largely increased, and the Government Account now forms only about 10 per cent of the working capital This will be readily seen from the following figures from the statement of affairs of the bank for week ending 30th September last which may be taken as a fair average —

	Rs	a	p
Government Balance, Head office - - -	27,47,316	7	6
Ditto Branches - - -	13,13,316	12	5
TOTAL - - -	40,60,632	3	11
Deposits other than Government - - -	2,58,34,119	7	3
Capital paid up - - -	60,00,000	0	0
Reserve Fund - - -	24,00,000	0	0
TOTAL - - -	3,82,94,752	11	2

4 It will be observed that the proportion of Government Deposits to the total working capital is 10.60 per cent, and it would be still less if we subtract that portion of the Government Balances which consists of uncurrent coin, copper, and Foreign Circle notes, which are not legal tender These amounted to over Rs. 4,00,000 on 30th September last

5 My Directors therefore submit that the Bank of Madras is not dependent upon the Government Balances for its loanable capital in an undue degree

6 I am now to submit, for the favourable consideration of Government, the following remarks with reference to the Presidency Banks Act, 1876, as amended by Act V of 1879

7 Section 36, Clause (M M) authorises "the borrowing of money in India for the purposes of the banks' business and the giving of security for money so borrowed by pledging assets or otherwise"

My Directors submit that the limitation of this power to India is a restriction which, however necessary when the Act was framed, is no longer so, and that the time has arrived when the power may safely be extended to borrowing in the United Kingdom

It will be admitted that the strongest banks require at times to pledge securities in order to raise funds to meet unusual requirements, and we have seen in recent years that even the Bank of England has had to do so. A bank whose powers are so restricted as to give it no elasticity in respect to its funds is placed at a very great disadvantage, especially in times of stringency or extraordinary trade demands. The Presidency Banks are in this position. When the financial position is such that a Presidency Bank requires to raise money, no other institution in India is likely to be in a position to lend, and, as Government will give no undertaking to do so, the power to borrow in India is practically of no avail, although the banks always hold ample first-class securities which they can offer as security for loans. Trade is thus often starved and hampered with a very high rate of interest when money could easily be obtained in the London market usually at 3 or 4 per cent had the banks the necessary power to borrow there

In making this suggestion my Directors do not lose sight of the fact that the restriction to borrow in India was imposed in view of the risk in exchange, which, at that time, authority to borrow in London would have entailed, but circumstances have changed, and, moreover, it is now an easy matter to avoid any exchange risk by the simple expedient of fixing the rate both ways at the time the transaction is entered into

My Directors would express the hope that the Government of India will give this suggestion their most favourable consideration, believing, as they do, that it is most necessary, both in the interests of the banks and of trade, that the former should be brought into touch with the London money market

\*Section 36, Clauses (3) and (4)—My Directors are of opinion that these clauses of the Act should be amended so as to enable the banks to deal in—

- (a) the securities of State-aided Railways,
- (b) securities issued by District Boards with the authority of Government

In making this suggestion my Directors do so not only in the banks' interests, but in the interests of the Railways and District Boards concerned as well as of the investing public, as permission to the Presidency Banks to deal in these securities would give them a value in the market, which they would not otherwise possess. But I am to add, that it is unlikely that this bank would be able to deal largely in such securities, unless the bank is itself placed in a position to raise money on its assets, as indicated in paragraph 7

9 If power to borrow in the United Kingdom were sanctioned, the bank would find employment for some of its funds during the slack season by investing in such securities as those mentioned in paragraph 8.

A reference to the accompanying statement (A) will show the marked difference in the earning power of the bank for the first half of the year as

\* This proposal was discussed at some length in the subsequent correspondence. The question was settled by the passing of Act I. of 1907 (An Act to amend the Presidency Banks Act) and is no longer of interest. Subsequent passages relating to it are therefore omitted from this collection of papers. The omissions are indicated by rows of asterisks.

compared with the second half. Owing to the course of trade in India, the bank finds full employment for its funds for about six months of the year, while for the remaining six months it has, as a rule, a large unemployed cash balance. This is not satisfactory, and my Directors would like to be in a position to maintain a larger holding of authorised investments throughout the year, but the inability to raise loans on these securities in the busy season is an obstacle to their doing so. If the bank had power to borrow in London, it would have no difficulty in raising funds on these securities, whenever required, at easy rates, and there would be no need to apply to Government for loans.

10 *Section 37 (a)* prohibits the bank from making any loan or advance for a longer period than three months. My Directors think that this might safely be extended to six months, as many transactions in the ordinary course of trade cannot be completed within the shorter period, and the necessity which at present exists of allowing renewals entails double stamp duty, &c.

This has been recognised already in the case of Ceylon, for by *Section 37 (f)* this bank is authorised to discount bills having four months to run, if payable in Ceylon.

11 *Section 37 (f)* My Directors would suggest that the limit for overdrafts without security be raised from Rs 2,000 to Rs 5,000.

The existing low limit prevents the bank from giving temporary accommodation in this form to any constituent, however good.

12 My Directors would also like to see Ceylon Government securities added to the list of those in which this bank is authorised to deal. As bankers to the Ceylon Government in Colombo, my Directors think that the Bank of Madras should be in a position to deal in, and advance money against, their securities. To avoid any possible misapprehension as to the diversion of this bank's capital to a field outside the Madras Presidency, I am here to state that the Colombo branch of the bank not only works entirely on its own resources with funds raised in Ceylon, but, in addition, supplies a considerable amount of capital for the use of the bank in this Presidency.

A — Statement showing the net profits made by the Bank of Madras, during the ten years ended 30th June 1899

Year	Half-year ended 31st December			Half year ended 30th June.			Total Profits for the Year		
	Rs	a	p	Rs	a	p	Rs	a	p
1889-90	2,26,616	13	5	5,27,991	8	9	7,54,608	6	2
1890-91	1,01,312	15	10	2,67,180	15	0	3,68,493	14	10
1891-92	1,09,340	15	7	3,24,603	6	2	4,33,944	5	9
1892-93	1,63,130	3	8	3,38,039	14	9	5,01,170	2	5
1893-94	2,36,716	12	6	3,70,303	10	9	6,07,020	7	3
1894-95	1,82,642	13	2	5,08,797	8	8	6,91,440	5	10
1895-96	2,15,331	0	7	4,58,828	0	1	6,74,159	0	8
1896-97	2,51,021	10	0	7,19,161	7	10	9,70,183	1	10
1897-98	2,90,134	6	2	7,33,508	2	10	10,23,642	9	0
1898-99	2,22,630	3	7	3,46,017	1	6	5,68,647	5	1
TOTAL	19,98,877	14	6	45,94,431	12	4	65,93,309	10	10
Average for the past ten } years - - - }	199,887	12	8	4,59,443	2	10	6,59,330	15	6

Dated 2nd December 1899

From W D CRUICKSHANK, Esq, Secretary and Treasurer, Bank of Bengal,  
to the SECRETARY to the Government of India, Finance and Commerce  
Department

I have the honour to acknowledge receipt from the Assistant Secretary to the Government of India of a copy of a letter addressed by him to the leading Chambers of Commerce in India, dated 10th ultimo, calling for an expression of opinion on proposals recently made to relax the restrictions on the business of the Presidency Banks imposed by Sections 36 and 37 of the Presidency Banks Act, 1876, and asking the Chambers to consider the matter with special reference to the existing capital of the banks. The letter is accompanied by copies of speeches made by His Excellency the Governor General in Council and the Honourable Financial Member, and I am desired by my Directors to express the satisfaction they experienced on learning that, in the opinion of these high authorities, the restrictions placed by Government on the operations of the banks have, to some extent, survived the reasons for their imposition, and that it has been decided to consider, in no narrow spirit, the claims of the banks for greater freedom of action. They also note that the Secretary of State for India and His Excellency are disposed to adopt the opinion expressed in influential quarters in London that the time has come to revive proposals made on various occasions for the consolidation of the central banking reserves of India by the amalgamation of the Presidency Banks.

My Directors are not at present in a position to discuss this very important question, as the views of the Directors of the other Presidency Banks have not yet been ascertained, but I am to submit, for the information of His Excellency the Governor General in Council, copy of a minute on the subject, dated 1st March 1867, by a former Secretary of the Bank, Mr George Dickson, and to add that my Directors are prepared to give respectful consideration to any proposals the Government of India may be disposed to make for the concentration in the hands of one institution of the powers now possessed by the three Presidency Banks.

In the meantime it is thought desirable that I should offer some observations on those subordinate questions to which the special attention of the Chambers of Commerce has been drawn, viz (1) the relaxation of the restrictions which prevent the Presidency Banks investing in, or advancing against, securities issued by "Assisted Railways" and District Boards with the authority of Government, and (2) the enlargement of the capital of the Presidency Banks.

\* \* \* \* \*

At the same time my Directors are ready to admit that the ordinary resources of the Presidency Banks are liable to be overstrained at periods when great activity of trade is accompanied by exceptional reductions of Government deposits, or when the import of capital is postponed by the prospect of a fall in sterling exchange, and for a long time past they have been anxious to obtain access to some reliable fund or funds to which resort might be had in times of pressure. They are pleased to see that the Government of India are of opinion that it is time that the central banking reserves were expanded, but they regret that the reference to the Chambers of Commerce directs attention only to the permanent capital of the banks, without making any mention of other resources that might be employed not only in strengthening the central banking reserves but in making them more elastic and readily adjustable to the wants of the country.

The resources of the Presidency Banks may be classified as follows—

- 1st—*Shareholders' capital* consisting of paid up capital and reserve funds
- 2nd—*Government Deposits*,
- 3rd.—*Other Deposits*,
- 4th—*Readily expandable resources*, which since 1861 have been confined to the borrowing powers of the banks

The annexed Abstract Statement of the working of the Bank of Bengal from 1856 will show that for many years past there has been a steady increase in capital, and a considerable, although varying, increase in other deposits, but that the Government deposits, instead of increasing with the improvement in the finances of the country, and the additions to the Government Account work devolving upon the bank, have been greatly curtailed since 1891. I have also to point out that the elastic resources of the bank have been rendered of little value owing to restrictions imposed by the State.

With regard to the relative proportions between the Government deposits and the bank's cash balance, to which reference is made in the speeches of His Excellency and the Financial Member above referred to, I am directed to invite attention to the percentages given in the above statement, from which it will be observed that the average proportion between these deposits and cash balances has decreased considerably of late years. The same return shows further that the proportion of the Government deposits to the Bank's other resources has also decreased in a very marked degree. According to the Weekly Statement published on 23rd November 1899 this proportion had then fallen to 11 3 per cent.

While anxious to see the resources of the Presidency Banks increased during periods of active trade, and especially at times of pressure, my Directors consider it doubtful whether any great increase in the permanent banking capital would not, under existing conditions and restrictions, be productive of greater evil than good. A few years ago the bank funds in India were, for a prolonged period, in excess of requirements, and as a plethora of banking capital is apt to encourage the holding back in first hands of produce, including food-grains and the great staple exports, for a rise in prices, and to cause unhealthy speculations in securities, it would appear prudent to ascertain how far the measures lately taken to steady sterling exchange are likely to bring fresh capital to the country before making any considerable addition to the permanent banking funds. In the opinion of my Directors all that the money markets of India want at present is a provision for expanding resources at times of pressure that will tend to adjust the supply of loanable money to the demand both during the busy and slack seasons. This is a pressing want and until it is satisfied the money markets of India will be liable to oscillate between periods of stringency and periods of plethora, and trade will be hampered by corresponding fluctuations in the rates of interest.

In all important commercial countries, with the exception of England, all extraordinary demands for money for local purposes (*i e*, for internal requirements as distinguished from a foreign drain) are met by the issue of additional fiduciary notes by the Central Bank or banks, and in England, it is the practice of the executive Government, at time of extreme pressure, to sanction such issues even though it becomes necessary to suspend the operations of the statute law. In Germany these issues are kept within safe limits, by imposing upon the Central Bank a 5 per cent interest charge for the assistance thus received, and in 1891 Mr Goschen proposed that similar issues should be legalised in England—a moderate charge to be made for a moderate amount, and a heavy charge for excess issues.

As an illustration of the way in which arrangements similar to those existing in Germany would work in this country, I am instructed to append to this letter an extract from the half-yearly Report of the bank, dated July 1860, from which it will be observed that the measures adopted by the German Parliament to mitigate the severity of monetary pressure, were anticipated by the Bank of Bengal, with the sanction of the Government of India, during the first half of that year. It will be seen that the charge

made for the excess issues of notes sanctioned in 1860 was the same as that adopted by the German Parliament in 1891, and that the action taken by the bank was entirely successful.

In India some facile method of expanding banking resources is all the more necessary, because, owing to the difference between the extent of business transacted during the dry and rainy seasons, and to the large temporary absorption of coin in the produce districts when the important crops are being brought to market, the variation in the demands on the central banking reserves is greater in India than in any other important commercial country.

Prior to 1st March 1862, the Presidency towns of India possessed a bank paper currency capable of being expanded when an increase in the demand for money arose. The Bank of Bengal had the power of issuing currency notes to the extent of two crores, subject only to the proviso that it should keep coin in its vaults to the amount of one-fourth of all claims outstanding payable on demand, and the Banks of Bombay and Madras could also expand the circulation in accordance with the wants of the moment on the same easy terms. But since the paper circulation was taken over by the Government of India on the above-mentioned date, the only means by which the Presidency Banks have been able to enlarge their resources at times of pressure has been by borrowing, and as they hold the central banking reserves in India, and are forbidden to borrow outside India, their powers of borrowing are very limited. The transfer of the Government balances and the management of the Public Debt Office to the banks in lieu of their note issues may have been considered an equivalent as far as the banks were concerned, but this change in the arrangements deprived the Indian markets of the privilege of a monetary circulation capable of facile expansion which all countries except England enjoy, and which, while little missed in a country like England, where the use of money is so largely superseded by bank cheques and transfers, is of supreme importance to a country such as India where, as already explained, the variations in the demands for money are sudden and excessive. When the Reserve Treasuries were formed in 1876, it was hoped that they would furnish a fund on which the Presidency Banks might rely in times of stress, on the conditions laid down in the Comptroller General's letter to the Bank, No 1361, dated 25th September 1878, a copy of which is appended, and the expansion of the central banking reserves at times of pressure from these funds and from the general treasury balances has been urged of late by witnesses before the Indian Currency Committee, and more recently by the Chairman of the Chartered Bank of India, and by the Indian Chambers of Commerce. This resource, however, while considered sufficient under ordinary circumstances, is liable to fail when advances are most wanted; viz, at times of famine, as, for instance, at the present time, and I am instructed to respectfully suggest that a more reliable resort for money at times of pressure is available in the coin reserve of the Paper Currency Department.

The suggestion which my Directors would make is that, when the bank rate rises to a height that indicates undue pressure, the Presidency Banks may be able to rely on procuring loans through the Comptroller General either from the Reserve Treasury, or, failing this, from the Paper Currency Reserve, at the current rates for demand loans on Government Paper, rising and falling therewith.

In submitting this suggestion my Directors desire me to state that it is made with the sole object of ensuring a steady supply of loanable capital at moderate rates. These loans would yield profit to Government, and benefit all who are interested in a steady money market, while the bank would undertake, without profit to itself, the risk and labour involved. My Directors would also submit that the Paper Currency Reserve is the most suitable fund to devote to this purpose, not only because it is large and steady, and, as experience has shown, would have been found ample from first to last to have relieved each monetary pressure from which India has suffered, but because it is to the Paper Currency that other nations look for assistance at times of monetary strain, and if effect is given to the proposal now made, the elasticity of the central banking resources, of which the Indian money



markets were deprived by the transfer of the Paper Currency to Government, will be restored

I am also directed to represent to His Excellency in Council that the power of the Presidency Banks to expand resources when required has been greatly crippled by Section 36, clause *m m*, of the Presidency Banks Act of 1876, which forbids them to borrow outside of India. The inconvenience of this restriction became early apparent, and, in September 1877, the three Presidency Banks joined in a memorial to Government praying that they might be empowered—

1st—To borrow either in England or India,

2nd—To make remittances to England in payment of the price of stock or other authorised investments, and also in repayment of loans arranged for there

A copy of the above memorial is submitted with this letter, and I am instructed to point out that the adoption of the gold standard has removed the only important reason for depriving the Presidency Banks of access to the great store of banking capital available in London. I am directed to press respectfully for reconsideration of the decision of the Government to prohibit borrowing in London, and to ask for power to enter upon all sterling operations incidental to borrowing in that market.

In making this request, my Directors would desire me to mention that in the speech of His Excellency the Governor General, to which the attention of the Chambers of Commerce is directed, it is suggested, as one of the reasons for its institution, that the Central Bank would have access to the London market. They are therefore encouraged to entertain the hope that the application of the Presidency Banks for permission to borrow in London will now be favourably received, as access to the London market is quite as essential, if not more so, for the Presidency Banks as for a large Central Bank.

If these three stores of money, viz., the Reserve Treasury Balances, the Paper Currency Reserve, and the London money market, are made available, it is unlikely that banking resources in India will be found deficient. Loans from the Reserve Treasury Balances have occasionally been withheld, my Directors understand, from the Presidency Banks on the ground that the money might be employed in enabling Exchange Banks to postpone purchases of council bills and lower rates, but rules could easily be framed that would guard against any such use of Government money, and if this is considered to be a good reason for withholding temporary accommodation from the Presidency Banks, there might be still greater objection, on the same grounds, to a permanent addition to their capital, such as that referred to in the letter to the Chambers of Commerce.

The paid up capital of the Bank of Bengal is rupees two crores and its Reserve Fund now amounts to rupees ninety-five lakhs—substantial additions having been made to it in recent years. Under Sections 10 and 13 of the Presidency Banks Act, 1876, the proprietors and shareholders have power, with the previous sanction of the Governor General in Council, to increase the capital by special resolution to the extent of one crore of rupees, and if the restrictions as to the class of business open to the Presidency Banks are relaxed and their powers of borrowing are enlarged, the Directors of the Bank of Bengal will watch carefully the effect of these changes on the supply and demand of loanable money, and be ready to submit to the shareholders proposals for obtaining the sanction of Government to enhancing the bank's capital whenever it may appear advisable. They are sanguine that it will be practicable to raise any such additional capital as may be considered necessary by the issue of shares at a considerable premium.

I am to add that, if in the future the Directors find that even this enhanced capital should prove to be insufficient, they will be prepared to approach Government with the object of obtaining larger powers to still further increase it.

In addition to this if it should be considered by the Government of India to be essential that the bank's capital should be placed on a sterling basis, my Directors will ask the shareholders for authority to make application to Government for the necessary powers. If, however, the measures taken

to fix sterling exchange prove effective, it will naturally follow that all Government currency in India will have a sterling basis

Enclosure No (1)

THE PROPOSED AMALGAMATION OF THE PRESIDENCY BANKS

Mr Dickson's report dated March 1, 1867, to the Directors of the Bank of Bengal regarding the amalgamation of the Presidency Banks, and which forms the basis of the negotiations pending between the Directors of the Banks of Bengal and Bombay —

Relative to letter of 27th ultimo from the Honourable David Cowie, with enclosure from Mr Rustomjee Jamsetjee Jejeebhoy, urging the establishment of a branch of this Bank in Bombay, I have now the honour, in conformity with your directions, to embody in this form the memorandum which I submitted as part of your yesterday's proceedings.

The extension of the Bank's operations to the Bombay Presidency, which is now urged for adoption, in consequence of the untoward position of the Bank of Bombay, must be viewed in two aspects —

1st—In the aspect of opening a branch in Bombay, and confining operations to the city alone, together with the probable effect of such action by the Bank of Bengal on the position of the Bank of Bombay and the interests of its shareholders

2nd—In the broader aspect of fusing the three Presidency Banks and creating one great bank for India, with active control in Calcutta, in the sense of its being the seat of the Supreme Government

Assuming, by reason of the embarrassed position of the Bank of Bombay, that it is not equal to meet the monetary requirements of that Presidency, and that you should resolve to occupy the field in consequence, the first question to be solved is whether, under the existing Charter, it is competent to do so

By the 36th section it is declared that it shall be lawful for the Directors, with the sanction of the Governor General in Council, from time to time to form business agencies and to establish Branch Banks "at such places as they may deem advantageous to the interests of the banks" [N B—Confirmed by Mr. Advocate General Cowie when case submitted regarding Bank of Bombay opening at Jubbulpore and Nagpore] It moreover provides for the conduct and transaction by such branches of the business of the local Government Treasuries, as well as for the management of the paper currency at present in abeyance

By Section 6 power is given to call up capital to the extent of three crores in all, or 80 lakhs in addition to the amount already paid.

Thus then it is apparent that the occupancy of Bombay is not only competent, but that, under the existing Chapter, you can provide the necessary capital.

I am, however, clearly of opinion that such action on the part of this bank would infallibly end in the total collapse of the Bank of Bombay Its connection with Government is limited to one year, and as public confidence is undeniably gone, I fear that there exists no probable hope of extrication from their present embarrassments, but almost the certainty of a tedious and costly wind up, should these relations be terminated on the expiry of the year. Meanwhile their ordinary business would be filtered away to the Bank's Agency or other Banking Institutions in Bombay. To the shareholders such a result would inevitably be disastrous. I say so with all the more confidence and freedom, because it is too well known that the value of their remaining capital depends, to a large extent, on the realisation of the assets of insolvent estates, while the liability for impending calls on the shares of joint-stock companies, held in the Bank's name or in the names of its accredited officers, is not yet, I believe, clearly defined, nor ascertained with exactitude

With such complications before you, I submit that it is more expedient to consider the question in its broader and more extended aspect, with the view of conciliating and conserving, not only existing interests, but of establishing one great Central Bank for all India by abolishing the distinctive names of the several banks, and so merging them all into one under a new Charter and a new name. Before, however, discussing this alternative measure, and seeing that immediate action has become necessary, I submit for consideration that the Bank of Bombay should be approached with a proposal to the effect that, pending the maturing of legislation in connection with a new Charter, a provisional agreement be entered into between the two banks, by which certain privileges should be conceded to the shareholders of the Bank of Bombay, immediately and prospectively, on the same footing as those to be enjoyed by the shareholders of the Banks of Bengal and Madras.

Should the proposal be entertained, and the field left open, in an amicable spirit, I submit that the Bank of Bengal should immediately call up the remaining portion of its capital and allot the whole, rateably, among its own shareholders at a premium of 25 per cent, *ie*, rating each share of Rs 1,000 at Rs 1,250, or the full share of Rs 4,000 at Rs 5,000, thus, according to the present market rate, giving a bonus or surplus on the single share of Rs 500 and Rs 2,000 on the full share. Thus effected, a whole crore is placed at your disposal for taking up the business of the Bank of Bombay in that city at least. Meanwhile the remnant branches [N B—Nine branches withdrawn], eleven in number, could be dealt with according to circumstances by being carried on, along with the addition of the Treasury business (never yet conceded to them by Government) should the disclosure of the position, progress, and future prospect of each warrant their prolonged existence.

The present premises in Bombay, at Kurrachee, and the other branches might be taken over, either on the valuation of parties mutually chosen or on lease. Sufficient accommodation would be reserved for affording every facility for the realisation of the outstanding assets by the Bank of Bombay.

On such realisation being effected, or at fixed and progressive dates, I would propose under the agreement to allot to the shareholders of the Bank of Bombay for the time being a crore [nearly their existing capital, which is given at 104 lakhs] of capital at the same rate as that charged to the proprietors of this bank on the call of 80 lakhs, *viz*, 25 per cent premium. That is to say, for 125 lakhs, they will receive at present prices 175 lakhs of marketable stock. Nor is it too much, I apprehend, to assume that the proposal now made, if carried out in its integrity, with the sanction of Government, will greatly enhance existing prices. I think a limit of Rs 2,000 for each single share may reasonably be calculated on. Thus then the two banks, when so united, would have a paid-up capital of four crores and a reserve fund of nearly sixty-five lakhs, a sum, in my judgment, by no means excessive, nor larger than what the bank so constituted ought to hold in relation to its paid-up capital, so as to provide for possible and unforeseen contingencies.

There remains, then, only the Bank of Madras to be dealt with. It is not necessary that any great pressure should be brought to bear upon them towards forming a junction with the United Bank. They might, however, have it in their option to do so on conditions of all but equality with the Bank of Bengal, seeing that the market value of their stock stands relatively to our own as 150 to 175. Provision has been made under their new Charter to extend their capital from 56 lakhs to one crore. Thus being so, and in contemplation of their business being extended to Ceylon, it is probable that the full amount permissible will ere long be called up. Assuming such to be the case, and bearing in mind that the capital of the United Bank otherwise is four crores, with a reserve of, say, 65 lakhs, the fair and rateable proportion which Madras ought to contribute to the Reserve Fund, along with transfer of guaranteed assets, may fairly be taken at 15 lakhs, thus bringing up the total capital to five crores, and the Reserve Fund to 80 lakhs. A moment's reflection will show that this proposal is both equitable and reasonable. If the additional capital of 44 lakhs is called up

and divided among shareholders of the Bank of Madras on the same terms as those on which the bank proposes to allot the 80 lakhs to our own proprietors, then they realise 11 lakhs, which, added to their existing reserve of, say, five lakhs, gives them 16 lakhs, or one lakh more than the rateable amount proposed to be contributed to the common Reserve Fund

Into details of management or minor conditions on which the business of the then United Bank should be carried on, it is not necessary to enter at present. One or two points may, however, be shortly noticed.

The nominal capital under the new Charter should be 10 crores, one-half being paid up.

Local Boards would be continued as at the present in Bombay and Madras, but the supreme control and the rules and regulations for the conduct of the business must rest in, and be laid down by, the Board in Calcutta, *i.e.*, that the same rules and conditions under which business is carried on here must be strictly adhered to and be conformed to by Bombay and Madras, and that power to enforce their due observance be specially reserved.

As already observed, Madras may possibly raise objections. I think it would be for the interest of the shareholders of that institution to fall in with the proposal. If, however, they should be of a different opinion, their refusal will in no way affect the carrying out of the proposal as regards Bengal and Bombay. In time Madras must follow.

There are only two points then in the proposed fusion of the banks on which for a moment I dwell, and to which I deem it necessary to call your special attention.

In dealing with the Bank of Bombay, I stipulate, as the radical and indispensable condition of union or absorption, that this bank takes over from them nothing but cash, towards payment of its quota of capital, at such periods as they themselves may elect. Their deposits and legitimate business will follow as a matter of course.

In carrying through negotiations with the Bank of Madras, on the other hand, I not only propose to take over capital, but also their entire existing business, exclusive of past due or irregular advances on simple guarantee of the bank itself.

Should Bombay decline these overtures, which I scarcely think they will do, then of course it remains with Government and yourselves to consider whether it is desirable or politic that the present chronic state of distrust and embarrassment should any longer be tolerated on the other side.

If Government and the Directors should in the last resort resolve to comply with the wishes of a friendly section of the Bombay community, I will be prepared to carry out your instructions, and on very short notice organise a competent staff to commence operations by opening a branch in Bombay.

Having thus dealt with the more practical portion of the question in both its aspects as set forth in the early portion of this minute, I deem it necessary in continuation to advert as shortly as possible to its consideration in a public point of view, and why it humbly appears to me that, in the interests of Government, the bank and the public, it is desirable to have one strong bank for India. First of all, however, it may be well to state that we have at home a class of political economists who hold the theory that, in currency and banking legislation, it is sounder policy so to frame the laws as to encourage the distribution of the banking reserves of a country among several banks, instead of holding them in a single bank. It is not improbable that some people, reasoning by analogy and holding in principle similar views, may propound them in India, while others, who care little about the principle, will, from interested and factious considerations, join again, as they have done before, in decrying the bank.

The question of rival establishments first assumed a practical shape in 1865, when a Commission was appointed by the French Government to inquire into the constitution of the Bank of France, and to report whether there should be another and great rival Bank of Issue to that institution.

The Bank of France, in a stricter sense than the Bank of England, has a monopoly of banking throughout the Empire, and of the paper circulation, which is unrestrained by legislative enactment, and which moreover the bank itself issues and is bound to protect

The Bank of England in like manner issues its own notes and protects their convertibility, but the law defines the proportion of securities and bullion which must be held against the paper circulation and separate the issue from the Banking Department. But the Bank of England in respect of the legal fetters imposed, and that it pays to Government a large proportion of the profits arising from the paper currency, may in a sense be looked on rather as the agents of Government for doing the retail work connected with the Paper Currency, than the pure issuer of its own notes. Both banks have not few exclusive privileges, some of those of the Bank of England are of an enduring nature, while as bankers to Government their agreement extends to 25 years certain. Both banks are the two great reservoirs in which the banking reserves of both nations are held.

The Commission of the French Government, after taking evidence from the ablest financiers and some of the more notable political economists in France and England, have reported against the proposed creation of another rival bank in that country, and I venture, it may be with great presumption, to doubt if the monied classes, including the representatives of the London and Provincial Banks, will, in 1867, gainsay the evidence which they gave in 1848 and 1865 in favour of the constitution of the Bank of England so far at least as the Banking Department is concerned.

The only countries, so far as I know, where there is a semblance of proof to support the theory are America and Canada. As regards the former, I have to remark that prior to 1861 banking and currency were entirely free, resulting, as we all know, in great public injury, bad faith, and bankrupt corporations. In 1861 Mr Chase, the then Secretary of State, succeeded in raising forty-four millions out of the one hundred and nine millions requisite for the financial wants of that year. Of the amount so raised, thirty-three millions, or 75 per cent, was taken by the Bank of the Federal States, but they were too poor to continue the process, because both their capital and deposits were perfectly inadequate to the demands of Government. The English market was tried without success, and American capitalists could afford no further assistance. In this dilemma the expedient was fallen upon of practically confiscating the note circulation of the whole of the banks, the legal tender, Greenbacks, were forced upon the country, and thus a new loan of a large amount was raised. Of the extraordinary depreciation in the value of the paper and the enhancement of gold measured in Greenbacks which followed I need not remind you, but it yet remains to be seen whether the compulsory measure resorted to in time of war, and which requires the fifty-nine banks to hold their reserves in notes, not convertible into gold but receivable for taxes, is likely to prove successful or beneficial to the country. The last return quoted by the *Economist* of 25th August last shows that only—

£  
1,700,818 in gold with  
16,168,102 legal tender notes of the State

or a total of £17,868,920 was held against upwards of forty millions of deposits and something over five millions of the note circulation of the banks, the residue of former issues.

Eschewing the doubtful policy adopted by America, the Government of Canada, although it abolished the privilege of issue enjoyed by the several banks and took the paper issues into his own hands, yet deemed it fair to afford liberal compensation to the several banks and entrusted the management of the Paper Currency to the largest bank in the provinces, viz, the Bank of Montreal, at an annual charge not exceeding one per cent on the average amount actually in circulation. [N B —Bank of Bengal commission only  $\frac{1}{4}$  per cent.]

Unlike the Governments of England, France, and Canada, but in some degree pursuing a policy akin to that of America, the Government of India,

has taken the right of issue as well as the management of the Paper Currency of India to itself

Assuming then that the theory under review is in itself sound and can be successfully carried into practice by the Government of India, I observe that the separation of currency from banking cannot be more complete in any country

All exclusive privileges have been taken from the Presidency Banks which are simply bankers to Government in the same way as they are bankers to the merchants and local banking institutions in the several Presidencies. There is, however, this important distinction, that under a terminable agreement and certain penalties Government covenants to keep a minimum floating balance at their credit with the several banks

Otherwise, and for services performed, the relations of Government with the banks are intimate, and, I add, are, or ought to be, valuable to both

In Calcutta—and I assume throughout the chief cities in India—the Presidency Banks are the holders of almost the entire reserves of those who keep a banker

Banking in India is entirely free, and has had of late years, as we all know, a very remarkable development. If, however, we go back a little and trace its rise, progress, and fall, it will be found that, without almost an exception, every European Bank started in this country soon lost its distinctive character of a bank proper and either become insolvent or found itself established in London as a Bank of Exchange. These banks have ramified connections with the seaports of India, the Straits, China, Australia, Japan, California, and elsewhere. Most of them have the privileges of a note circulation beyond the confines of India, and everywhere they more or less cultivate a local banking business

As a convenience, and on the obvious ground of economy, the Indian branches, however, choose to keep their cash reserves with the Presidency Banks, and in times of difficulty—I put the matter broadly—they calculate on receiving assistance from their bankers

Taking then matters as we now find them, the question is raised, “Are there in India the materials for enforcing, by legislation, uniformity in the rule under which each bank must keep its own reserves in Government notes, and is it desirable or expedient to encourage such legislation?”

To obtain uniformity, the law must over-ride the existing charters of those banks and compel the weekly publication of assets and liabilities, so that the proportion of silver or Government legal tender notes may be assimilated to the amount of advances outstanding. Even if the above difficulty can be got over, I apprehend that the opposition of the banks would be very formidable. They would be obliged under such a law to throw on the market that large portion of their reserves which they hold at present in the interest-bearing securities of Government and convert them into legal tender notes which do not bear interest. Neither Government nor the banks could possibly gain by such a measure. I question indeed if in reality it would not prove futile so long as the Banks can without let or hindrance, create on comparatively small capitals a very large superstructure of credit by valuing on each other according to their necessities either on demand or at long currencies

Is it then expedient to hold out sufficient inducements to new institutions to establish themselves in this country, keep their own reserves, and confine their operations exclusively to India in the same way that the Presidency Banks, the Banks of England and France, and in America, restrict their operations

I think not. All past experience, while banking *has been entirely free*, goes against the theory. Government might indeed sever the existing connection, create a rival establishment, and give to it the restricted use of their balances, but that would simply be a change of bankers and probably result in the serious weakening of one bank only to magnify another or rival establishment.

Purely local banks, with branches throughout the Presidencies, to be really useful and advantageous to the country, must be established and

conducted on sound principles. To such banks the prestige of Government is of the last importance.

You cannot, I submit, institute a fair analogy between England or France or America and India, nor, with safety or advantage, force upon India theoretical legislation in banking or currency.

The usages, customs, and habits of the people of this country, who are a nation of traffickers in money as well as in the inland exchanges, are opposed to the rapid growth of purely western customs and institutions. They must ever retain in their own hands, against all competitors, by far the largest portion of the purely banking operations in India, and legislation cannot possibly reach them. They have sufficient influence either by active combination or passive inaction, to defeat any movement of the kind, unless indeed they find that it observes their own interests.

The question appears, then, to be narrowed to this issue—Is it preferable with a view to the unholding of separate reserves, to continue the three banks in the respective Presidencies, or to fuse them into one?

The unfortunate position of the Bank of Bombay, apart from all other considerations, renders it, in my opinion, not only preferable, but necessary. The element of uncertainty regarding such a large portion of its assets, the impending liability for heavy calls, the impaired credit and crippled resources of the bank, and, beyond all, its inability to cope with recurring monetary crises, must, from time to time, bring its position prominently before the public and tend to unpleasant discussions with Government. The reserve of the bank, with numerous branches and a capital reduced by nearly one-half, cannot possibly be maintained at the same high range as that under the amalgamated bank, which provides so much additional capital specially for Bombay requirements. Nor can Government have perfect freedom in dealing with their balances at Bombay so long as public confidence is wanting in the stability of that bank as now constituted. The uniformity in administration which must follow on the fusion of the banks will certainly tend, more than divided action, to maintain public credit and to restore broken confidence by attracting deposits and thereby enlarging the reserves of the bank.

A multiplicity of banks beyond the Presidency towns, purely local in their character and in their business, who would be compelled by law to hold a certain amount of reserve proportioned to their advances, is, I repeat, in my opinion not attainable or possible here.

It is a delicate point to insist on, but I add that I do not believe that the Paper Currency can ever have a fair trial in India until the management of it is restored to the banks. Government began at the wrong end by prematurely appropriating to itself the supposed large profits of an *imperfect circulation*. Accepting it as an accomplished fact, I nevertheless, with much deference, adhere to my frequently recorded opinion that our currency legislation has been wrongly directed, and that it is only through the agency of the banks that a note circulation can ever have a thorough development throughout India.

Banking monopoly is not possible. No Government, so far as the mere banking connection is concerned, stands more loosely towards a State Bank than does the Government of India towards the Presidency Banks of India. If Government or the public are aggrieved, if terms more favourable can be obtained by Government at the termination of the short existing agreement, the connection may be at once ended as a matter of course.

To obtain and preserve that connection, the amalgamated bank must necessarily make sacrifices, which, under other circumstances, would be unnecessary. That the connection is now advantageous to Government, the bank, and the public is admitted, and that it will be much greater under a united bank is set forth herein.

Banks who have to consult only their own safety and profits, cannot afford to extend help to others in times of difficulty.

To recapitulate then with such a large capital actually provided and liable to further calls in case of need with an adequate reserve fund in the event of unforeseen losses arising either from the ordinary business or from

political disturbances, I submit that the proposed united bank would be equal at all times and under all circumstances, not only to meet the legitimate requirements of commerce, but by unity of action, and under the eye of the Supreme Government, to control those recurring monetary crises, which although hitherto more felt in the Bombay Presidency, yet very closely and intimately affect the interest and position of all

Government would have an absolute guarantee for the unvarying management of their treasuries under one controlling power, a certainty of greater economy in the use and distribution of their balances throughout India, uniform management of the Public Debt under the same safeguard, but with enlarged security and a powerful agent in aiding them in all their financial measures, not only at the seat of Government, but combined action throughout the whole country, nor do I despair of (what I venture to term) sounder views than those which at present prevail being ere long adopted by Government, and of the management of the Paper Currency being restored to the bank on terms somewhat similar to those which it formerly enjoyed or resembling in a modified degree the privileges of the Banks of England and Montreal

In too many banks, purely European, the wealthy natives and merchants have of late manifested unmistakeable distrust, and it is submitted, with confidence, that in legislating for India, respect must be paid to their usages, habits, and prejudices. They have never distrusted the Bank of Bengal. Its extension on a perfectly sound and wider basis, combined with a prolongation of the existing happy combination of official and mercantile experience in the Board of Directors, will, it is submitted, tend materially to the progress of India

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Enclosures Nos 2 and 3

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Enclosure

## Abstract Statement of the Working of

Year	Number of Branches	Capital	Reserve Fund	Weekly average amount of Bank of Bengal Notes and Post Bills Outstanding	Weekly average of Government Balance at Head Office and Branches	Weekly average of other Deposits, Post Bills, and Bank of Bengal Notes from 1866 to 1861	Weekly average of Mercantile Bills Discounted current	Weekly average of advances by Loans and Cash Credits on Government and other authorized Securities	Weekly average of Bank's Investments	Weekly average of all advances including Bank's Investments
1856	—	1,07,00,000	3,96,498	1,50,84,217	—	2,90,15,692	16,76,774	1,95,33,758	17,28,660	2,29,39,192
1857	—	1,07,00,000	4,31,284	1,47,44,312	—	2,35,36,991	10,88,757	2,04,13,007	20,91,796	2,34,83,560
1858	—	1,07,00,000	2,40,538	1,45,37,040	—	2,58,36,049	9,40,645	1,72,46,469	26,00,128	2,07,87,242
1859	—	1,07,00,000	2,39,926	1,66,66,322	—	2,89,51,493	8,90,878	1,88,39,921	41,83,392	2,39,14,191
1860	—	1,07,00,000	2,42,260	1,76,41,048	—	3,09,69,184	11,19,818	1,78,42,352	12,96,729	2,62,58,899
1861	—	1,07,00,000	2,19,878	1,73,52,008	—	2,93,76,290	13,18,163	1,50,91,609	25,71,751	1,89,81,523
1862	5	1,09,90,909	16,32,570	—	4,50,13,043	1,26,79,493	40,18,585	1,26,27,898	93,53,865	2,60,00,348
1863	9	1,09,90,909	13,36,241	—	3,50,55,740	1,50,12,940	81,45,964	1,04,63,695	98,62,886	2,84,72,445
1864	10	2,30,00,000	17,67,132	—	1,64,79,709	1,79,90,224	90,81,842	1,50,56,152	46,28,931	2,87,66,925
1865	11	2,20,00,000	17,23,225	—	1,45,71,476	2,65,94,750	96,24,030	1,43,90,209	88,35,706	2,78,49,946
1866	15	2,20,00,000	19,65,598	—	1,30,62,661	2,41,44,224	1,24,65,261	1,29,05,965	60,59,337	3,04,20,553
1867	16	2,20,00,000	18,51,414	—	1,21,99,640	3,72,19,252	1,06,69,548	78,64,431	94,98,482	2,81,32,461
1868	18	2,20,00,000	17,62,947	—	1,17,77,897	4,69,54,417	1,36,08,383	*1,41,10,165	69,56,825	3,45,77,373
1869	18	2,20,00,000	15,80,818	—	1,06,87,607	3,17,52,726	1,36,53,397	88,25,391	88,25,391	3,12,45,324
1870	18	2,20,00,000	15,67,789	—	2,16,41,473	3,11,54,074	1,81,92,250	84,62,007	92,56,169	3,59,10,416
1871	19	2,20,00,000	15,41,689	—	4,56,05,290	2,58,41,121	1,94,82,935	1,38,27,913	1,06,09,946	4,39,70,794
1872	18	2,20,00,000	15,07,883	—	4,28,03,284	2,95,79,498	1,76,91,687	1,23,76,715	1,36,47,679	4,37,16,051
1873	20	2,20,00,000	15,54,746	—	3,92,21,988	2,76,57,047	2,15,49,557	79,56,533	1,55,00,493	4,50,06,683
1874	19	2,20,00,000	16,07,197	—	3,11,25,631	2,57,29,138	1,83,69,244	1,11,57,754	1,50,31,761	4,45,58,769
1875	19	2,20,00,000	19,03,816	—	3,63,96,612	2,51,21,700	1,88,27,999	1,23,00,521	1,61,12,061	4,72,40,536
1876	19	2,06,56,560	16,72,639	—	3,12,65,347	2,14,68,595	1,84,11,090	1,07,40,018	1,54,13,474	4,45,64,582
1877	15	2,00,00,000	20,00,000	—	2,11,99,833	2,02,41,202	1,93,58,152	99,98,618	1,08,64,944	4,02,21,714
1878	15	2,00,00,000	20,27,550	—	2,31,85,265	2,72,97,545	2,15,07,516	1,01,56,849	1,09,46,299	4,26,10,664
1879	15	2,00,00,000	22,90,200	—	2,59,90,164	2,55,40,921	1,94,37,240	1,53,92,791	98,59,575	4,41,89,406
1880	15	2,00,00,000	25,12,209	—	2,33,06,607	3,04,17,173	1,89,47,061	1,22,45,219	1,08,81,832	4,00,74,112
1881	15	2,00,00,000	30,11,966	—	2,39,89,158	3,04,10,184	2,06,13,898	1,09,83,819	1,15,80,247	4,51,77,964
1882	15	2,00,00,000	35,11,746	—	2,45,68,756	2,62,08,255	2,34,46,774	1,22,40,321	1,17,82,236	4,74,89,331
1883	15	2,00,00,000	40,09,606	—	2,53,91,185	2,46,32,394	2,14,19,365	1,54,93,048	1,20,37,339	4,89,49,752
1884	15	2,00,00,000	41,59,271	—	2,02,71,655	2,36,81,694	1,71,91,978	1,78,25,534	99,94,745	4,50,12,257
1885	16	2,00,00,000	41,57,265	—	1,35,94,375	3,05,34,438	1,64,12,300	1,75,04,772	1,10,37,609	4,49,74,681
1886	15	2,00,00,000	46,56,605	—	2,36,71,496	3,20,76,578	2,06,41,079	1,86,02,778	1,15,01,714	5,27,46,571
1887	15	2,00,00,000	60,52,760	—	1,98,25,014	3,48,14,252	2,10,21,538	1,72,33,036	1,27,69,587	5,10,24,221
1888	15	2,00,00,000	34,49,639	—	2,07,01,740	3,81,10,280	2,82,19,540	1,51,77,100	1,26,65,620	5,60,62,260
1889	15	2,00,00,000	58,00,000	—	2,19,57,000	3,23,05,547	2,57,60,528	2,10,71,586	98,88,735	5,67,20,848
1890	15	2,00,00,000	47,00,000	—	2,01,12,207	4,48,96,000	1,37,81,890	1,97,60,452	1,57,76,663	5,19,16,942
1891	15	2,00,00,000	47,00,000	—	2,06,91,830	6,66,52,377	2,14,37,075	1,45,50,981	1,85,35,490	5,46,23,546
1892	15	2,00,00,000	49,00,000	—	1,86,01,528	5,48,86,604	2,20,87,283	1,96,80,622	1,50,01,415	5,67,69,320
1893	16	2,00,00,000	56,00,000	—	1,78,40,150	4,95,83,207	2,36,66,792	2,26,83,641	1,39,77,830	6,03,28,263
1894	17	2,00,00,000	63,50,000	—	1,57,72,981	4,41,66,818	2,31,04,163	2,19,38,672	1,35,77,818	5,86,20,653
1895	17	2,00,00,000	68,50,000	—	1,94,95,634	5,59,56,942	2,34,15,192	2,29,40,442	1,46,16,942	6,59,72,576
1896	17	2,00,00,000	76,00,000	—	1,93,75,488	5,74,20,293	2,93,25,010	3,06,74,635	1,25,27,555	7,26,27,200
1897	17	2,00,00,000	83,50,000	—	1,45,75,454	5,37,17,628	1,48,63,741	4,13,95,696	1,21,10,167	6,73,69,604
1898	17	2,00,00,000	91,00,000	—	1,75,33,039	4,84,59,110	1,52,82,094	4,09,40,024	1,13,99,164	6,76,21,282
1899	—	—	—	—	—	—	—	—	—	—
1900	—	—	—	—	—	—	—	—	—	—

\* Increase caused by special advances to Government

No 4

the Bank of Bengal from 1856

Gross Profits at Head Office and Branches	Charges exclusive of Income Tax	Percentage of Charges to Gross Profits	Net Profits at Head Office and Branches	Average Cash Balance	Average proportion of Cash to Liabilities	Average proportion of Cash and Government and other authorised securities to Liabilities	Average proportion of Government Deposits to Bank's Capital, Reserve Fund, and Total Deposits	Average proportion of Government Balances to Cash	Per cent. per annum of net profits on Capital	Dividend per cent. per annum paid	Average of Bank's rate of Interest	Year	
15,81,049	1,76,414	11 192	—	14,04,635	1,14,30,922	48 30	57 5	—	—	13 130	11 25	6 512	1856
17,19,358	2,04,509	11 896	—	15,14,850	1,02,37,032	43 70	53 8	—	—	14 156	12 50	6 994	1867
14,57,960	2,19,304	15 043	—	12,38,656	1,09,45,359	62 10	72 9	—	—	11 583	11 75	6 143	1868
16,39,744	2,08,995	12 745	—	14,30,750	1,60,73,564	54 70	70 9	—	—	13 370	12 00	4 874	1869
14,01,612	2,35,127	16 771	11,223	11,42,707	2,13,32,779	67 10	71 9	—	—	10 677	10 75	4 233	1860
12,52,358	2,06,247	16 625	43,266	10,00,845	2,14,84,729	72 40	81 3	—	—	10 877	10 75	4 233	1860
17,06,068	3,22,530	18 901	58,128	13,83,533	4,52,80,401	76 10	90 9	64 1	99 4	9 349	9 53	4 171	1861
21,94,949	4,01,628	18 297	47,022	17,93,310	3,52,09,646	67 50	86 6	56 1	99 5	16 313	13 00	5 111	1863
28,46,099	4,90,519	17 234	32,456	25,52,203	2,44,41,598	66 90	79 7	28 2	67 3	15 286	15 00	8 686	1864
27,76,086	5,35,710	19 297	16,602	22,40,375	3,66,09,958	87 60	96 9	22 8	39 9	10 177	10 00	6 949	1865
38,03,330	6,65,695	17 002	—	32,37,635	2,92,69,295	75 70	88 8	21 3	44 6	14 714	13 00	9 147	1866
26,83,972	7,67,320	28 604	—	19,16,152	4,34,67,042	87 00	106 1	16 6	28 0	8 708	8 50	5 052	1867
28,21,833	8,37,145	31 438	—	19,84,688	3,66,87,203	73 60	87 9	14 2	32 1	8 792	8 50	5 845	1868
24,66,688	9,07,929	36 807	16,779	15,68,769	3,56,26,387	77 80	98 4	16 0	31 5	7 083	6 50	5 996	1869
26,89,679	9,04,654	33 630	47,109	17,85,024	3,92,58,985	77 55	90 1	28 3	55 1	8 109	7 25	5 735	1870
28,76,191	9,04,068	31 432	24,631	19,72,123	4,90,18,633	68 30	83 2	48 2	32 9	8 964	7 00	4 718	1871
31,44,408	9,39,187	29 865	20,400	22,05,221	4,91,27,094	67 55	85 9	44 6	37 1	10 250	9 50	4 963	1872
25,14,368	9,23,736	36 734	3,500	15,90,632	4,32,04,036	63 95	86 6	43 3	30 7	7 229	7 50	4 935	1873
33,01,099	9,22,938	27 958	—	23,78,155	3,49,30,156	60 15	83 6	38 6	39 1	10 307	9 75	6 222	1874
31,71,811	9,12,280	28 760	—	22,59,531	3,69,55,871	59 05	85 2	42 6	38 4	10 271	8 50	5 656	1875
31,04,382	9,16,699	29 663	—	21,87,682	2,90,04,455	53 95	83 1	41 6	107 7	10 599	8 00	6 763	1876
31,53,574	8,82,402	27 979	—	24,12,015	2,20,28,998	51 60	76 9	33 6	97 1	12 067	9 00	8 398	1877
29,02,691	8,84,912	30 484	—	20,17,780	5,09,42,664	59 35	85 2	31 9	74 9	10 089	9 00	5 232	1878
34,67,991	9,02,308	26 015	—	25,65,683	2,89,47,127	54 65	72 5	35 9	93 2	12 828	9 50	6 345	1879
28,67,805	9,14,924	30 901	—	19,52,881	3,77,37,433	64 70	92 7	30 5	61 7	9 760	8 50	4 649	1880
34,66,169	9,32,219	26 891	—	25,33,950	2,90,04,680	52 55	76 9	30 9	82 7	12 667	10 00	5 289	1881
33,47,305	9,00,485	26 927	—	24,47,820	2,47,98,781	47 30	70 3	33 0	99 0	12 234	9 50	6 599	1882
34,40,268	9,07,499	26 376	—	25,32,769	2,86,22,957	45 00	67 6	34 2	107 9	12 661	9 50	6 777	1883
32,66,395	9,29,431	28 448	—	23,36,963	2,19,30,940	47 90	70 3	29 7	93 4	11 682	9 50	6 379	1884
29,88,243	9,34,045	31 448	—	20,04,198	2,79,83,376	54 29	76 5	25 3	66 4	10 021	9 50	5 381	1885
36,02,308	9,44,575	26 786	27,940	26,58,233	2,61,79,549	45 53	65 4	29 3	89 9	13 292	10 00	6 037	1886
33,06,364	9,98,798	28 495	46,697	25,06,566	3,80,07,524	48 67	71 6	24 8	70 7	12 531	10 00	5 439	1887
34,17,819	9,63,967	28 208	46,114	24,53,862	2,72,81,300	44 52	65 8	24 5	75 8	12 271	10 00	5 450	1888
40,15,996	10,10,155	25 155	44,860	29,60,943	2,21,31,407	39 16	55 3	27 4	99 2	14 804	10 00	6 992	1889
35,01,200	10,41,294	29 741	47,173	24,12,733	3,69,48,984	52 20	78 3	22 6	54 4	12 063	9 50	5 790	1890
27,57,068	10,36,626	37 236	38,322	16,97,120	4,09,30,304	43 22	64 2	21 0	66 1	14 789	10 00	4 881	1891
31,34,834	10,23,198	32 607	53,442	20,59,194	3,14,38,726	43 22	61 3	21 0	66 1	12 679	10 00	4 329	1892
40,51,810	10,27,673	25 362	66,177	29,57,999	2,83,89,868	42 90	63 6	23 6	66 1	14 785	10 00	5 691	1893
41,00,805	11,27,973	27 606	64,837	29,07,995	3,47,51,403	44 70	63 6	18 5	64 1	14 469	10 00	7 925	1894
37,92,315	11,92,856	31 455	63,667	26,35,792	3,01,84,269	37 80	53 5	15 0	52 1	14 469	10 00	7 925	1895
42,39,678	12,06,058	28 446	76,549	29,67,065	2,75,28,907	39 00	56 0	15 0	52 1	14 469	10 00	8 065	1896
41,66,500	11,98,418	28 770	75,266	28,91,816	2,60,29,317	37 90	54 5	18 4	67 6	14 479	10 00	—	1899
41,49,567	11,75,934	28 339	77,632	28,95,981	—	—	—	—	—	—	—	—	1900

in connection with the Abyssinian Expedition

Enclosure No. 5

378

Statement of the Affairs of the Bank of Bengal, for the week ending 28th November 1899

LIABILITIES				ASSETS.			
	Rs	a	p		Rs	a	p
Capital paid-up	2,00,00,000	0	0	Government Securities	39,87,646	0	0
Reserve Fund	95,00,000	0	0	Other authorised Investments	81,81,865	8	0
Public Deposits at Head Office	67,93,864	15	5	Loans on Government and other authorised Securities	2,06,43,082	11	5
Ditto Branches	49,99,885	12	0	Accounts of Credit on other authorised Securities	2,22,18,281	13	11
Other Deposits at Head Office and Branches	5,98,83,473	9	6	Bills discounted and purchased	1,43,48,678	13	10
Bank Post Bills, &c	1,29,701	10	6	Balances with other Banks	9,76,845	9	0
Sundries	27,08,995	14	2	Bullion	4,851	10	7
				Dead Stock	13,32,511	3	4
				Stamps	9,349	14	9
				Sundries	16,28,889	4	11
					7,33,32,002	9	9
				Cash and Currency Notes at			
				Head Office	1,43,94,021	0	7
				Branches	1,62,89,898	3	3
					3,06,83,919	3	10
TOTAL	10,40,15,921	13	7	TOTAL	10,40,15,921	13	7

ROYAL COMMISSION ON INDIAN FINANCE

Bank of Bengal, Calcutta,  
30th November 1899

E J BIRCH,  
Chief Accountant.  
Rate for Demand Loans 6 per cent  
Percentage 41.1

By order of the Directors,  
W D. CRUICKSHANK,  
Secretary and Treasurer.

## Enclosure No 6

Extract from the Report, dated 5th July 1860, by the Directors of the Bank of Bengal, for the half-year ending 30th June 1860,

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The Directors have the pleasure of laying before the Shareholders the result of the bank's operations for the half-year ending 30th June 1860

During this period the value of money has undergone marked fluctuations. Early in January the demand for accommodation showed a decided tendency to increase, so that the bank's circulation throughout the entire month did not fall much short of the limit allowed under the Charter. This fullness of circulation rendered it necessary at two successive periods to raise the rates of discount and interest from 6 and 7 per cent. to 8 and 9 per cent.

Consequent on the closing of the Government 5½ per cent Loan on the 13th February following, the demands on the bank became excessive, and the rates were further increased one per cent. all round. The pressure at this date was greatly aggravated by the sudden abstraction and the locking up of nearly 38 lakhs of capital in connection with one of the Government salt sales which took place on the 29th February. To meet this extraordinary demand on the resources of the bank, and with the view of affording the utmost facilities to the public, without adding further to the discount and interest rates, the Directors deemed it expedient to make an arrangement with Government, under which the right of issue was extended by seventy-five additional lakhs, on the bank agreeing to pay Government at the rate of 5 per cent. per annum on the excess of their authorised circulation. So great was the demand for accommodation at this period, that not less than 2 per cent. per mensem was paid in the bazar for short-dated loans. Towards the end of March the business of the Bank reverted to its ordinary channels, and successive falls in the rates of interest took place during the following month. Indeed so rapid was the reaction, that in April, May and June the amount of cash steadily increased from a minimum of Rs 1,11,13,561, to upwards of Rs 2,36,00,000. This repletion of coin in the coffers of the bank has been accompanied by an unusual dulness and stagnation in all the staple articles of trade. Money in consequence continues very abundant, and great difficulty is experienced in finding employment for it even at the bazar rates of 3¼ to 4 per cent. The Directors, however, hopefully look forward to an early mitigation of the unfavourable features which have characterised the position of mercantile affairs during the past three months.

## Enclosure No 7

No, 1561, dated 25th September 1878

From J. WESTLAND, Esq, Offg Comptroller-General to the SECRETARY and TREASURER, Bank of Bengal

I have the honour to communicate to you, for the information of your Directors, copy of the orders of Government, No 2430, dated 22nd August 1878, directing the reduction of the balance on the Bank of Bengal by transfer to the Reserve Treasury of any excess over about a crore of rupees. With reference to the last paragraph of the Government letter, I have received instructions that advances from the Reserve Treasury are at present intended to be made only to or through the Presidency Banks, from which no security for them will be taken.

2 With reference to the loan for which tenders were invited upon 12th August last, I have received the following telegram from the Government of India, which so far modifies the orders now communicated —

“The Government of India will not withdraw loan proceeds from the Bank of Bengal this time”

No 2430, dated 22nd August 1878

From R. B CHAPMAN, Esq, Secretary to the Government of India, Finance and Commerce Department, to the COMPTROLLER-GENERAL

By my letter No 3566, dated 2nd September 1875, the Government of India communicated to the Bank of Bengal a memorandum dated the 13th

September 1875, of the conditions upon which the Governor General in Council was prepared to make an agreement with the bank for the transactions of the public business. The same document was simultaneously communicated to the Banks of Madras and Bombay

Among the conditions contained in that memorandum was the following —  
 “it is to be understood that the Government will ordinarily not leave with the head-quarters of the banks, otherwise than temporarily, more than the following sums —

	Rs
Bank of Bengal - - -	1,00,00,000
Bank of Madras - - -	30,00,000
Bank of Bombay - - -	50,00,000

but this condition will not be inserted in the contracts, which will impose no obligation upon the Government to leave any balance whatever with the banks”

“It will be observed that the Government will not undertake to give to the banks the exclusive custody of all the public balances where the Government banks with the banks”

The Presidency Banks Act came into force on the 1st May 1876, and agreements were shortly afterwards concluded in accordance with that memorandum

The conditions thus recited were connected with the following instructions contained in a despatch from the Secretary of State, No 225, dated 6th May 1875, paragraph 15 “Your proposal that a minimum balance should be fixed, all deductions from which should carry interest against you, appears to me to be reasonable. Without such a protection, express or implied, it would be difficult for the banks to transact business with so large a customer. You would naturally take care to fix a minimum which should not impose any burden upon the State, beyond what is necessary for their fair remuneration. Any such arrangement should be supplemented by a corresponding provision that if the balances which you think fit to leave with the banks exceed a fixed maximum and the banks should desire to retain them, they should bear interest in your favour”

For some weeks past the public balances at the Bank of Bengal in Calcutta have largely exceeded one crore of rupees, at one time they reached the large sum of Rs 2,68,76,683. The public balances at the Bank of Madras at Madras, have also considerably exceeded the ordinary maximum of 30 lakhs of rupees. The abnormal excess in Calcutta is due to the loan of 2½ crores of rupees (exactly Rs 2,46,07,056) which was taken up on the 24th June, and it is understood that Mr Waterfield hesitated to transfer any part of the proceeds of the loan to the Reserve Treasury, because money has not hitherto been thus transferred directly from the bank to the reserve

The Governor General in Council is, however, unwilling that the condition which has been quoted from the memorandum of the 13th September 1875, should be allowed to become a dead letter, and I am accordingly to request that in future it may be borne in mind, and that the balances at the Head office of each of the three banks may not be allowed, for more than a short time, to exceed the maximum amount fixed in the memorandum. You should have no difficulty in arranging thus, especially in Calcutta where the Reserve Treasury is at hand, and, unless you have reason to think that the present balance in the Bank of Bengal there will speedily subside, a portion of it should be at once transferred to the Reserve Treasury

It will be convenient that it should be understood that in future, when a loan is raised, no more of the amount subscribed should remain with the banks than will raise the public balances, at most, to the maximum

In carrying out these instructions, however, you will be at liberty, to the extent to which you can conveniently do so, to accommodate the banks with temporary advances from the Reserve Treasury, provided they are willing to pay interest on such advances at current rates

## ENCLOSURE No 8

To His Excellency the Viceroy and Governor General of India in Council  
The Memorial of the Presidency Banks of  
Bengal, Madras and Bombay

SHEWETH—

1 That your memorialists, the Presidency Banks, have recently had to consider what, if any, powers of borrowing money are vested in them by the Presidency Banks Act (XI of 1876) having reference to the provisions of Sections 36 and 37 of such Act

2 That your memorialists, the Bank of Bengal, have recently taken the opinion of learned Counsel on the following points —

1st — Whether the bank is in any way prohibited by the Bank Act from raising money by borrowing in England at the Bank of England or elsewhere, on the security of the deposit of Indian Government Securities belonging to the bank

2nd — Whether in case money is raised as in the last question suggested, the Bank of Bengal is prohibited by the Bank Act from remitting by bills or otherwise the amount of such loans at due date thereof

3rd — As to the legality or otherwise of the bank's raising money at all, and borrowing either on deposit of securities or otherwise

4th — As to the validity of the bank's lien on property pledged to it by either of the other Presidency Banks

And the following is a copy of Counsels' opinion on the points submitted to them —

## OPINION

Under Act XI of 1876 the bank is, by Section 4, incorporated and possesses and enjoys all the "rights and powers incident by law to a Corporation aggregate subject nevertheless to the provisions of the Act"

The general law as to the position of a Corporation thus constituted has been recently considered by the Court of Exchequer Chamber and the House of Lords in the *Ashbury Carriage Co vs Ritchie*, L R, 9 Ex, 224-249, and L R, 7 E and T App, 653

The short result seems to be that though a Corporation by the Act of its creation is endowed *prima facie* with all the powers of a natural person *sui juris*, yet (as Lord Cairns says) if the Act "states affirmatively the ambit and extent of vitality and power which by law are given to the Corporation, and states negatively that nothing shall be done beyond that ambit, no attempt can be made to use the corporate life for any other purpose than that which is so specified"

In this case the "affirmative" is specified with great particularity and minuteness in Section 36, the "negative" broadly and generally in Section 37

We are of opinion that going into the English or other European markets as borrowers to raise money at rates lower than Indian rates, is a species of business beyond the scope of the bank's powers, and that in so doing, the Directors would run (to say the least) a very great risk of being held to have endeavoured to go beyond "the ambit of the bank's corporate vitality"

It is clear that they cannot as *principals* draw bills on England

The other questions involve greater difficulty

Section 36 gives power to advance money (*a*), power to invest and *convert* the investments *into money* (*d*), power to receive deposits and keep cash accounts on such terms as may be agreed on (*g*) and generally, the doing of all such matters and things as may be incidental or subsidiary to the transacting of the various kinds of business above specified (*n*)

Looking at the general nature of banking business and the sudden demands liable to be made on a bank, we cannot say that it may not sometimes be incidental and subsidiary to the business of a Corporation engaged in lending money and having a large reserve of Government Paper, occasionally to take a loan on its Government Paper pending its total conversion into money

If it were shown to be a case in which, from a temporary fall in the market, a prudent man would naturally take this course, it would be difficult to hold that such acts were not incidental and subsidiary to the business specified in Section 36.

But at the same time it must be observed that the powers are given with great particularity, and that there is not a word about pledging or giving security in Section 36, and no power of borrowing, save by way of "taking deposits" under clause *g*, and although receiving deposits is in the eye of the law "borrowing," still it is a peculiar kind of borrowing, and any attempt to extend it beyond its ordinary and accepted meaning might be looked on as an *evasion* of the Act

On the whole we are of opinion that it is not necessarily "*ultra vires*" for the bank to raise money on Government Paper, as an intermediate stage in its total conversion into money, when the exigencies of business demand it. The more so, because in some cases powers of sale have been held to include power to mortgage

But we are very decidedly of opinion that if the bank contemplates doing this on a large scale and habitually, it would be very desirable to have an express authorising clause inserted in the Act, and not to leave a question of such importance to be decided by inferences which might be drawn differently by different judges

These remarks show the view we take of the paper held in pledge from the other banks. We think they would be held to be good pledges, but that it would be more satisfactory if their authority to pledge were distinct

(Signed) G C PAUL  
" G H P EVAN

11th September 1877

3 That your memorialists submit it is an ordinary incident of banking business to obtain funds for temporary purposes by pledging assets. If banks are prohibited from raising money by pledge of assets when occasion arises, they may on a sudden requisition for cash be obliged to make forced sales of property at a disadvantage, and this applies, your memorialists submit, with great force to the Presidency Banks of India, whose action in forcing Government or other securities on the market might cause a public panic.

4 Your memorialists submit that it is from every point of view desirable that the Presidency Banks should have power to borrow money on pledge of property or otherwise, and as money can often be obtained on more favourable terms in England than in India, your memorialists submit that the power of the Presidency Banks should extend to borrowing in England, and should include the power to make remittances to England in repayment of loans, and in payment of the price of stock or other authorised investments of the banks from time to time which may be purchased or acquired in England

5 Your memorialists submit, moreover, that it is highly desirable that the powers of the Presidency Banks should be clearly defined, and should not be left as learned Counsel say "to be decided by inferences which may be drawn differently by different judges"

6 Your memorialists believe that it is the practice of the Bank of England to raise money at times on pledge of Consols, and to lend money on securities of the Government of India, which are known in London as "Rupee paper," and—

Your memorialists therefore humbly pray that the Presidency Banks Act (XI of 1876) may be amended, and that distinct and definite powers may, by the amended enactment, be given to such banks

1st—To borrow money either in India or England, by pledge of assets or otherwise, and on such terms as to repayment, interest, &c, as the said banks may from time to time arrange

2nd—To make remittances by Bills of Exchange or otherwise as may seem expedient, to England, in payment of the price of stock or other authorised investments from time to time purchased or acquired for the banks in England, and also in repayment of loans arranged for there

And your memorialists further pray that previous borrowings by such banks or either of them may be declared to have been valid transactions

And your memorialists as in duty bound shall ever pray.

No. 2516, dated 31st August 1878

RESOLUTION —By the Government of India, Finance and  
Commerce Department.

READ —The undermentioned papers relating to a Memorial addressed to the Government of India, by the three Presidency Banks, praying that the Presidency Banks Act, XI of 1876, may be amended, so that the banks may be empowered—

1st —To borrow money, either in India or England, by pledge of assets or otherwise, on such terms as to repayment, interest, &c ; as the said banks may, from time to time, arrange

2nd —To make remittances to England from time to time, by bills of exchange or otherwise, as may seem expedient, in payment of the price of stock, or other authorised investments, purchased or acquired for the banks in England, and also in repayment of loans arranged for there

and that previous borrowings by such banks, or any of them, may be declared to have been valid transactions —

Letter from the Secretary and Treasurer, Bank of Bengal, dated 22nd December 1877, and its enclosure, being the Memorial from the Presidency Banks

Endorsement to the Comptroller General, No 2828, dated 22nd December 1877

Letter from the Comptroller General, No. 5849, dated 27th December 1877

\*Despatch to the Secretary of State, No 41, dated 25th January 1878

\*Despatch from the Secretary of State, No 135, dated 2nd May 1878, and its enclosure

Letter to the Government Solicitor, No 1505, dated 6th July 1878

Letter from the Government Solicitor, No 684, dated 18th July 1878, and enclosure

RESOLUTION —The Secretary of State for India is unwilling that the Governor General in Council should comply with the Memorial, so far as it relates to borrowing in England, because, so long as the Government Balances are in the custody of the Presidency Banks, it is not considered expedient that the banks should engage in foreign exchanges, or have the power of creating a foreign Agency in England, which would be the result of their contemplated loan transactions in that country

2 The Secretary of State is prepared, however, to concede to the Presidency Banks the desired power of borrowing money *in India*

3 But, before taking any steps in this direction, His Excellency in Council desires to be informed whether the experience of the past two years has revealed any other defects in the Presidency Banks Act, XI of 1876. It has been represented to the Government of India as a defect, that, under Section 36 (a), the Presidency Banks are debarred from buying and advancing money on securities guaranteed by a Local Government, or on securities issued by a Municipality, or by a Port Trust constituted by Law

ORDERED —That this Resolution be communicated to the Comptroller General and the Accountants General, Madras and Bombay, and the Presidency Banks,† with a request for an early report whether any other amendments of the Presidency Banks Act are desired

Dated, Madras, 6th December 1899.

From H SCOTT, Esq, Vice-Chairman, Chamber of Commerce,  
Madras, to the SECRETARY to the GOVERNMENT of INDIA, Finance and  
Commerce Department.

I have the honour to acknowledge the receipt of your letter No. 5123-A. of the 10th ultimo, in which the Government of India invites the opinion of this Chamber on the proposal to relax the restrictions imposed by the

\* See also pp 515-7.

† Secretary and Treasurer, Bengal, Bombay, and Madras.



Presidency Banks Act, 1876, and asks for suggestions as to the precise directions in which any relaxation should be made. The Chamber is further asked to consider the matter with special reference to the existing capital of the banks.

Prior to the receipt of your letter the Chamber received from the Secretary and Treasurer, Bank of Madras, a copy of his letter to you of the 13th ultimo (copy enclosed) in which, on behalf of the Directors of the bank, he submitted, for the consideration of the Government of India, suggestions for modifying the Presidency Banks Act. This letter has received the careful consideration of the Chamber, which is unanimously of opinion that the removal of the restrictions mentioned therein is urgently called for.

Whilst fully agreeing with all the suggestions put forward in the bank's letter, the Chamber is specially impressed with the urgent need for legislation which will enable the Presidency Banks to expend their supply of loanable funds in times of pressure. The Chamber is convinced, so far as the Bank of Madras is concerned, that the capital of the bank is ample for present requirements. Indeed, it may be questioned whether a dividend could be earned, under existing conditions, on further capital, which would probably only be employed for a few months at the height of the busy season, while for the remainder of the year it would be idle in the bank's vaults.

It is the want of elasticity in regard to loanable funds, available for trade purposes, which causes periodical stringency at the height of the busy season. The remedy for this, in the opinion of the Chamber, is to amend the Presidency Banks Act so that the banks may be brought into touch with the London money market. If Government considers that the restrictions imposed by the Act in regard to borrowing out of India should not be removed, the Chamber submits that there is an obligation on the part of Government to devise some other means whereby the Presidency Banks may have the facility, which all other banks possess, of expanding their resources to meet unusual trade demands. The only alternative which the Chamber can see is that Government should lend to the banks, whenever they required funds, on definite and reasonable terms. It is absolutely necessary, however, that any arrangement of this kind should be *definite*, so that the banks could obtain funds when necessary at a moment's notice, as they could do were they permitted to raise the money themselves. The Chamber is further of opinion that, if Government decides on this course, the rate of interest charged should approximate that at which money could be borrowed by the banks in the London market.

While putting forward this alternative suggestion for the consideration of Government, the Chamber is strongly of opinion that the best solution of the difficulty is to permit the banks to borrow in London, in which case assistance from Government would not be required. If, as is assumed, the currency scheme is to be made effective with the rupee at 1s 4d, the Chamber can see no objection to the latter proposal, and has no hesitation in strongly supporting it.

In conclusion, the Chamber would observe that all the Presidency Banks have the power of adding largely to their present capital under the existing Act, and the Bank of Madras recently took advantage of this power to increase its capital by a small amount. It may, the Chamber thinks, be safely assumed that the banks will further avail themselves of this power as soon as they can see their way to profitably employ any further capital.

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No 1507—99, dated 20th December 1899

From W PARSONS, Esq, Secretary, Bengal Chamber of  
Commerce, to the SECRETARY to the GOVERNMENT of INDIA, Finance and  
Commerce Department

I am directed by the Committee of the Bengal Chamber of Commerce to acknowledge receipt of your letter, No 5123-A, with its enclosures of 10th November, in reference to the question of amending the Presidency Banks Act, 1876, with the view of relaxing the restrictions on the business of the banks imposed by Sections 36 and 37 of the Act, and asking for the

opinion of the Chamber on the proposal, with suggestions as to the precise directions in which any relaxations should be made, the matter to be considered with special reference to the existing capital of the banks.

2 The Chamber are asked to give their opinion—

- (a) As to whether it is desirable that the Presidency Banks Act should be amended so as to permit of the Presidency Banks making advances on the stocks of Assisted Railways, &c, &c
- (b) As to whether the existing capital of the Presidency Banks is sufficient to admit of the banks being given extended powers to enable them to make advances on the securities named

\* \* \* \* \*

4 The Committee find some difficulty in giving a definite reply with regard to the second point put before them. It seems to them that the question raised should be considered rather with special reference to the general resources of the Presidency Banks and to the entire banking system of India, than to the existing capital of the Presidency Banks. It is held in some quarters that the scarcity of loanable capital and high rates of interest and discount frequently experienced in the busy season are due to the fact that Government collect a very large portion of the revenue after the harvests, and thus withdraw from active circulation a large sum in coin at the very season of the year when money is required to pay for and move the crops, and that these recurring periods of extreme stringency might be mitigated, were Government to take precautions to prevent their revenue collections from unduly affecting the money market.

5 The Chamber have more than once advocated a more liberal policy towards trade in connection with the treatment of the Government balances. While the Committee agree that this is desirable, they recognise that in a country like India, where either for war or famine purposes, or owing to some other unforeseen and altogether unexpected cause the Government are compelled to keep a portion of their resources locked up and available at a moment's notice, while it is also necessary to keep in funds hundreds of treasuries scattered over the empire, it is not altogether prudent for the Central Banking Institutions to rely wholly on assistance from the Government treasuries at a time of extreme stringency, and the Committee will welcome any arrangements that can be made for affording these institutions other means of expanding their resources readily at times of pressure.

6 It has been pointed out that for several months in the year it is impossible to lend out money in India except at a nominal rate of interest, and that it is consequently difficult for banks to work at a profit. This consideration makes it the more difficult for the Committee to answer the question put to them in regard to the adequacy, or otherwise, of the capital of the Presidency Banks. But they are convinced that in the busy season the banking facilities in India are not sufficient for the trade and the satisfactory development of the country, and at times of pressure the existing arrangements for giving relief seem to them to be quite inadequate.

7. As a measure of relief in this connection, suggestions have been made—

- (a) that in the Paper Currency Reserves the Government have an excellent machinery, with which at times of pressure and without in any way crippling their own resources they can, under some suitable arrangement with the Presidency Banks, come to the relief of commerce,
- (b) that if a large bank is formed by the combination of the Presidency Banks, its resources and capabilities for useful work would be greatly increased if it had the power of issuing legal tender notes. The Committee are inclined to think that the existing system—under which the country is divided into circles, and the notes issued at the Head Office of any one circle are legal tender only in that circle and not elsewhere—is open to the objection that it is opposed to the expansion of the note circulation. It is possible that, if the proposed bank were entrusted, like the Bank of

England and the banks of other European countries, with the management of the Paper Currency, subject, of course, to all the regulations considered essential for the protection of the public, the note issue would expand to the great convenience of commerce

8 These suggestions, however, and the others referred to in this letter, upon which, owing to the very complex nature of the subject, the Committee do not attempt to do more than touch, raise questions which they would like to see expertly and very fully discussed, and they would suggest that at an early date, a conference be held of bankers and others interested, at which the views of all parties would be invited, so that the subject may be thoroughly threshed out. The Committee would add that, in their opinion, the banking system in India will never be entirely satisfactory until the Central Banking Institutions are in close touch with London, the money market of the world

9 In conclusion, the Committee would acknowledge the indebtedness of the mercantile community to His Excellency the Viceroy and the Honourable Mr Dawkins, for the efforts they are making to improve banking facilities in India. They trust that these efforts will result in the Central Banking Institutions and the other banks in India being placed in a position to give important assistance to the promotion of railways and other works of public importance, and to finance at moderate rates and on terms as free as possible from heavy fluctuations, the operations of industrial and other trading concerns, thus placing the country in a more advantageous position in the future than in the past to compete with the great commercial nations of the world

Dated 20th December 1899

From the SECRETARY, Chamber of Commerce, Bombay, to the SECRETARY to the GOVERNMENT OF INDIA, Finance and Commerce Department

Under the instructions of the Committee of the Bombay Chamber of Commerce I have the honour to acknowledge the receipt of your letter No 5123-A, dated 10th November 1899, with copy of the speeches made by His Excellency the Viceroy and the Honourable Mr Dawkins on the 1st September last on the subject of amending the Presidency Banks Act of 1876

2 These speeches have had the best consideration of my Committee, and I am now directed to reply that the members approve of the proposal to relax the restrictions imposed upon the Presidency Banks by the Act, and would further recommend that these banks be permitted to borrow out of India. There is, in the opinion of the Committee, no reason to suppose that such relaxation and permission if conceded to the Presidency Banks as at present constituted would lead to rash borrowing or investment or to the tying up of capital for any excessive length of time. Nor has the Committee any doubt that the banks in question are fully capable of providing more working capital when required. Attention has been particularly drawn to the amount of Government deposits with the Presidency Banks and the proportion borne by such deposits to the bank's resources has been by implication very greatly exaggerated. The comparison instituted by the Honourable Mr Dawkins, between Government Account and the Bank's cash balances is calculated to mislead the public, for the Bank's Cash balances which it is, of course, the endeavour of the management to keep as low as possible, do not in any way represent the banks' available resources. In point of fact the ratio of Government Account to the banks' available resources is understood not to exceed 15 per cent, and the sum is generally least when trade demands are greatest. In the opinion of the Committee too much has perhaps been made of the recent periods of tightness as being due to a want of sufficient capital in the country, notably in the hands of the Presidency Banks. Stringencies in the money market have been not infrequently due to want of confidence in exchange, precariousness of credit and consequent withdrawal of native capital from circulation in the bazaar, and, as this Chamber has already had the honour of representing, to the practice of locking up enormous Treasury balances at the moment when money is most in demand.

3 It is understood, however, that Government at present entertains the project of giving such relaxation or expansion not so much to the Presidency

Banks as to a Central Bank for all India to be formed by amalgamation of the Presidency Banks. The Committee have had the advantage of hearing Mr. O'Connor, Director-General of Statistics, on the subject, but it appears to them that the proposals as to the precise constitution and functions of the said Central Bank are too indefinite for thorough consideration.

4 Such points as—

- (a) the amount of capital,
- (b) the conditions of note circulation,
- (c) the cost of managing it,
- (d) the possibility of dispensing with the system of note circles, and
- (e) the practical convertibility of the rupee, with its attendant problem of the control of the gold reserve, are all questions of great importance, and the Committee feel themselves in want of the necessary detail to appreciate their effect.

5 The most important of these points is that of the amount of capital to be controlled by the bank. The Committee understand that it is not to have more Government support than the present Presidency Banks, and, therefore, similar conditions of management must be followed and the capital must be kept down to what can be profitably employed. At the same time the bank is to have large currency duties to perform, *viz.*—

- (a) to establish the 1s 4d exchange, or in other words the gold standard,
- (b) to maintain a steady and a lower rate of discount throughout the country, and
- (c) to undertake convertibility.

To maintain any effective control on these three unknown quantities under probable and improbable circumstances would call for the holding of large and idle reserves, it, therefore, appears that there are two opposite factors to be considered with this question of capital, and without knowing the views of Government this essential point cannot be dealt with. The mere addition of three or four million pounds to the available banking funds could have but little effect on the development of a vast country like the Indian Empire, and any really large increase of capital under one control would be difficult of profitable employment, competing, as it would have to do, with the internal native banking concerns and the powerful banks of the capital towns.

6 The Committee are not satisfied that mere amalgamation of the banks would be likely to confer benefit in any general sense, on the contrary they look upon India and Burmah as too vast an area to be effectively served by one Central Bank. Whatever rules might be laid down for the autonomy of the various Presidency Offices and for the universal character of the general management, one or other of the Presidency Towns would inevitably and immediately become the real seat of such general management and reap the advantages of such domicile to the detriment of the other two. The Committee, therefore, consider that the interests of commerce will be better served by development of the separate fields than by their consolidation, for in the opinion of the members the fusion of the Presidency Banks—so far from increasing credits as is assumed—would have the opposite effect and restrict them.

7 A good deal has been said about the advantages the new bank would secure in the way of an even flow of capital throughout the country, but the Committee do not at present see how the conditions necessitating the so-called water-tight Treasury Compartments are to be altered so as to afford the public greater convenience without a corresponding strain on the bank. And they remain of opinion that no method has yet been indicated that would be likely in practice to cause a quicker and more effective distribution of money than that which is at present governed by the imperative calls of trade.

8 It has been stated that with India's currency difficulties settled a considerable expansion of financial and industrial enterprise would follow. Whilst not gainsaying that the inflow of British capital consequent upon a stable rupee might be considerable, the Committee would point out that here in Bombay the rapid and enormous growth of the mill industry points to the fact that where prospect offers the means are readily found for carrying out industrial schemes.

9 Coming to the note issue, it is not clear to the Committee that any substantial and immediate benefit would accrue to the bank from the proposed concession that it should only derive benefit on the increased issue of notes it could succeed in placing in circulation. Such an increase could only be looked for to take place gradually, and although the general interchangeability of the notes as compared with the present limited note circles should make the paper more popular, still it is a fact of to-day that in the interior coin and not notes is the medium of exchange.

10 On the question of convertibility the Committee incline to think that, although the undertaking is by no means absolute, it might, if liberally acted upon, serve to encourage the free inflow of sterling capital, they, however, doubt whether France, with its enormous gold reserve and without external debt, should be compared with a country so differently situated in these two respects as the India of the present day.

11 On the whole the Committee consider that the interest of the trading community would be best served by improving the means at hand and allowing further time to help towards the solution of a problem (the currency legislation) which has no exact counterpart in other parts of the world.

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No. 25, dated 21st December 1899

From J. BEGGIE, Esq., Secretary and Treasurer, Bank of Bombay,  
to the SECRETARY to the GOVERNMENT of BOMBAY,  
Financial Department

I have the honour to acknowledge receipt of your letter No 5599, dated 23rd ultimo, asking that the Government of Bombay may be favoured with the views of the Board of Directors of the Bank on the proposals referred to by the Government of India in their letter No 5123-A, dated 10th idem, regarding the relaxation of the restrictions imposed by Sections 36 and 37 of the Presidency Banks Act, 1876, on the business of the Presidency Banks.

The letter from the Government of India was addressed to the Chambers of Commerce in Bombay and elsewhere, and forwarded a copy of the speeches made by his Excellency the Viceroy and the Honourable Mr Dawkins at a meeting of the Legislative Council of the Governor-General held on the 1st September last, explaining the circumstances under which the question of amending the Presidency Banks Act, 1876, had been raised, and the attitude which the Government of India are at present inclined to adopt. The letter asked for the opinions of the Chambers on the proposal to relax the restrictions imposed by the Act, and for suggestions as to the precise directions in which any relaxation should be made, and also that the matter should be considered with special reference to the existing capital of the banks.

In reply, my Directors instruct me to say that they welcome the conclusion arrived at by the Government of India that the limitations imposed by the Legislature on the business in which the Presidency Banks are authorised to deal have to some extent survived the times and conditions which rendered them necessary, and do unnecessarily hamper business and enterprise, and also the declaration that Government is prepared and has decided to examine the question exhaustively and in no narrow spirit.

\* \* \* \* \*

I am instructed to say, however, that still another amendment is necessary, namely, that the power the banks now possess of borrowing money in India for the purpose of the banks' business, and giving security for money so borrowed by pledging assets or otherwise, should be extended so as to enable them to borrow in England. With the sterling exchange comparatively steady in the neighbourhood of gold point, and with an increasing margin of gold in the Paper Currency Reserve, borrowing in England would not now be attended with undue risk, while it would give

the Banks that access to the London money market which His Excellency the Viceroy deemed necessary if an amalgamation of the Presidency Banks was affected, and is most necessary in the interests of the trade. Such risk as there is of loss by exchange can, if desired, be definitely ascertained and provided for at the initial stage of the transactions, by fixing the rate of exchange for the return remittances at the time the money is brought out to this country. This can almost invariably be done if the return remittance is to be made within a few months.

The additional borrowing powers now sought have been found by experience in recent years to be necessary to meet special times of pressure for money arising from active trade demands or from other causes. They are not sought merely to meet the further demand for accommodation which may arise by reason of the securities of assisted Railways and District Boards being included amongst the securities the banks may invest in or lend against. But I am instructed to draw attention to the expectation of a considerable expansion of financial and industrial enterprise in India, which is widely entertained, and was alluded to in the speech of His Excellency the Viceroy, and to say that if such an expansion takes place, the Presidency Banks should be in a position to obtain money on the cheapest terms possible, either in India or in England, to meet the additional demand for accommodation which will accompany the increase in trade.

The three Presidency Banks are unanimous in seeking for power to borrow out of India.

#### GOVERNMENT DOUBTS AS TO SUFFICIENCY OF BANKS' CAPITAL

The letter from the Government of India seems to indicate that the Government entertain doubts as to the sufficiency of the existing capital of the banks. My Directors are strongly of opinion that the working capital of this bank can be largely increased by deposits or borrowing before it will be necessary to have recourse to an increase of the shareholders' capital, although they will not hesitate to recommend an increase of the latter if circumstances should seem to them to require it in the future.

#### GOVERNMENT REASONS FOR THINKING CAPITAL INSUFFICIENT

The reasons given in the following passages from the speeches of His Excellency the Viceroy and the Honourable Mr. Dawkins for the Government, doubts as to the sufficiency of the banks' capital appear to my Directors to have been advanced under a misapprehension of the actual facts.

"The Presidency Banks depend to a quite exceptional degree for their cash balances on the Government account. As Sir James Westland showed, in the busy season, nearly 80 to 90 per cent of these balances are supplied from the Government Account—a fact which, added to the fluctuation in the rate of discount, may make us ask seriously how far the Presidency Banks have sufficient capital to allow of the absorption of the resources they command in enterprises, the securities of which might not be easily realisable.

"The bulk of their (the Presidency Banks) cash balances, or what I suppose I may call their loanable capital, is supplied by Government, and \* \* \* if we subtract this at any given moment, they are not, as a rule, in possession of sufficient independent capital to enable them to conduct operations on a large scale."

My Directors respectfully submit that the correct way to measure the extent to which the banks depend on the Government Account is to compare the amount of the Government deposits with the total working capital of the banks, consisting of the shareholders' capital and the Government and other deposits, and not with the amount of the cash balance on hand. Measured in this way, it will be found that the Government deposits form only a small proportion of the total working or loanable capital.

The whole of the Government balances deposited with this Bank are not kept in cash, as seems to be supposed. They form a part of the whole of the deposits withdrawable on demand, and it has never been suggested that they should be treated differently from other demand deposits. The cash balance is formed of a certain proportion of the whole of these deposits, and

not mainly of the Government balances. My Directors therefore think that the statement quoted from Sir James Westland that in the busy season nearly 80 to 90 per cent of the banks' cash balances are supplied from the Government Account, cannot be accepted as correct, and does not show that the bank depends to an exceptional degree on the Government Accounts, or that its capital is not sufficient.

I have further to point out that the reference made in the first of the two passages above quoted, to the fluctuations in the rate of discount, and the inference also drawn therefrom that the banks' capital is insufficient, also appears to my Directors to have been made under a misapprehension. There are other elements besides the capital of the banks which should be taken into account to ascertain the cause of the fluctuations in the rate of discount. There are the supplies of money to be considered on the one hand, and the demand for finance accommodation on the other. The supplies may be divided into three parts—the working capital employed by all the banks in India, the Government balances, and the native capital employed solely in the different bazaars throughout the country. Of these, only the first, consisting of the capital, deposits, &c., of the banks, is a fairly constant quantity. The Government revenue collections in the early part of each year lead to the withdrawal of large sums from the active circulation at a time when money is greatly needed by the trading community. And the usual Government disbursements are subject to great changes. In normal times large sums are distributed throughout the year in the Presidency towns in payment of Council Bills, &c., while in a time of famine or war such disbursements are liable to be largely reduced or even entirely stopped, the money being diverted elsewhere. The native capital employed in the bazaars is also liable to severe contraction, especially in a time of famine, or plague, or war, when much of it is withdrawn entirely from employment. That is the time when an exceptional demand for accommodation is experienced by the banks. The prices of many commodities rise, and more banking facilities are required than in ordinary times. The supplies of money in India are thus liable to large fluctuations while the demand for accommodation varies greatly and is very heavy when the supplies are diminished, leading to a sharp rise in discount rates. The movements in the banks' rate of discount being contributed to by causes and conditions over which the banks have no control, the capital of the banks can hardly, my Directors think, be said to be deficient merely because of the fluctuations alluded to.

#### PROPOSED AMALGAMATION OF THE PRESIDENCY BANKS

My Directors regret that they are unable to concur in the opinion expressed by His Excellency the Viceroy that a consolidation and a concentration of banking facilities are required in the interests of the business accommodation and credit of the country. So far as they are aware, there is no demand in India on the part of the mercantile and trading community for such concentration. If the banking facilities in the country were found to be inadequate, an increase in banking capital would be necessary, and would speedily be called for, but a mere amalgamation of the existing banks would not provide an increase of capital or of banking facilities. It would rather tend to curtail credit in many cases.

One of the objects the Government have in view in proposing the amalgamation of the three Presidency Banks is, my Directors are informed, to obtain an institution to which could be entrusted the duties of maintaining exchange with England within certain limits, and of managing the currency note issue, and certain high financial authorities in England have expressed their opinion in favour of these duties being entrusted to a bank. My Directors will be glad to consider fully and favourably any proposals which Government may make to them with this end in view. Such proposals will, no doubt, take into consideration the great risk which would devolve on any bank which undertook the maintenance of the exchange between India and England under present conditions, and will also include the offer of fair terms for such a guarantee.

I have to request that a copy of this letter may be forwarded to the Government of India on an early date.

Dated 27th December 1899

From W B WISHART, Esq, Secretary, Upper India Chamber  
of Commerce, to the ASSISTANT SECRETARY to the GOVERNMENT of INDIA,  
Finance and Commerce Department

PRESIDENCY BANKS ACT, 1876

Your letter No 5123-A, dated 10th ultimo, has been duly considered by the Committee of this Chamber. I am now directed to say that my Committee beg to thank the Government of India for the opportunity granted the Chamber to express an opinion *re* the proposal to relax the restrictions imposed, under Sections 36 and 37 of the Presidency Banks Act, 1876, on the business of these banks; as also to put forward suggestions as to the precise direction in which any relaxation should be made

The members of this Chamber are chiefly representatives of Companies engaged in manufacturing and industrial enterprise of firms dealing in country produce for shipment, and in the handling of imported goods. They are, therefore, from personal experience, in a position to appreciate fully the soundness of the sentiments expressed by the Governor General of India at the Meeting of Council held on the 1st September 1899, and in particular, the remarks made by His Excellency, *viz* —

\* \* \* \* \*

“ An examination of the existing system leads me to doubt whether the banking institutions of India are at all adequate to the growing needs of the country ”

\* \* \* \* \*

“ Here we are at the end of the nineteenth century, with 22,500 miles of railway opened in this country, with the telegraph wires connecting all our important cities and centres, with business operations being conducted every year on a larger and increasing scale. Moreover, we are looking forward, if we can settle our currency difficulties, to a considerable expansion of financial and industrial enterprise. And yet, in respect of banking, it seems to me that we are behind the times. We are like some old-fashioned sailing ship, divided by solid wooden bulkheads into separate and cumbrous compartments. This is a state of affairs which it appears to me can hardly continue ”

\* \* \* \* \*

The inability of the Presidency Banks to advance against immovable property, as collateral security, in connection with loans made on the security of stocks of raw and manufactured goods, has in the past hampered and retarded the progress of many assured undertakings in these Provinces, they having, in consequence, been forced on occasion to obtain money from uncertain or outside sources at high rates of interest, often coupled with terms preventing such concerns from borrowing money against movable property in the open market or from the Presidency Banks.

The Chamber does not recommend that sanction be granted to the Presidency Banks to make advances on immovable property generally, but hold that, subject to certain limits, some relaxation of the restrictions imposed by the Act should be allowed where industrial and manufacturing enterprises are concerned.

The amendment to the Act whereby the Bank of Bombay is enabled to deal in securities of the Bombay Improvement Trust Fund is not a matter which this Chamber is disposed to cavil at, and the application of the Bank of Bengal for the extension of its Charter so as to cover transactions in the securities of Assisted Railways is reasonable from the Bank's point of view as such securities give a better net rate of interest and are subject to less fluctuation than is Government Paper as a rule. But having regard to the fact that the Presidency Banks have the custody of Government balances, my Committee consider that the mercantile community are entitled to look to these banks to invest the bulk of the funds at their disposal primarily in the trade and commerce of the country.

The disastrous effect on the trade of the United Provinces, owing to an inadequate supply of cash at the season when the crops have to be handled,



whether brought about by the action of Government or of the Presidency Banks, was treated of in a letter addressed by this Chamber, under date 10th April 1890, to the Bengal Chamber, a copy of which is enclosed for favour of consideration

The subsequent decision of Government to make treasury balances available for mercantile purposes during the so-called busy season demonstrates the desire to assist trade, but the restrictions imposed, tending to limit such assistance to only a few months of the year, and the depletion of Government funds in the hands of the Presidency Banks has, combined with other factors, nullified to a great extent the good intentions of Government in the matter

The working of the Presidency Banks during the last four years and the large sums that they have been able to add to their "RESERVE" proves that funds have been fully employed and kept liquid to an extent that might well excite the envy of like Chartered Institutions in many other British Dependencies. But my Committee cannot accept, as applicable to existing circumstances, the statement made by Sir James Westland to the effect that in the busy season 80 to 90 per cent of the Presidency Banks' cash balances are supplied from the Government Account. At this season of the year, when all possible assistance to trade in general is needed, it is disconcerting to see how low the Government balances are

The statement of the affairs of the Bank of Bengal for the week ending 14th November 1899 *vide Government of India Gazette*, dated 18th November 1899, shows the Cash Balance to be Rs 2,50,00,000 against Government Deposits Rs 1,22,00,000, General Deposits Rs 5,80,00,000

From the above figures it would seem that the Bank of Bengal could, without serious danger to itself, hand over the whole of the Government deposits, and incidentally the present state of affairs might be held to indicate that the bank cannot with safety trade with funds from such an uncertain source of supply. It is understood that Government has time and again been urged to allow the Presidency Banks to accept money in England for investment in their business in this country and my Committee are of opinion that some relaxation of the provisions of the Act of 1876, or modification in the Charters of these banks, which would allow their drawing funds from home, is desirable, as calculated to render these institutions comparatively independent of Government balances and to place them in a position to finance the internal trade of the country, under normal conditions, all the year round, at a reasonable rate of interest

My Committee, if it be considered permissible to diverge a little from the question directly under consideration, would venture to suggest that endeavours might, with advantage, be made to induce the Presidency Banks to follow trade more closely, by the establishment of Branches or Sub-Agencies at centres which have been, or will be, opened up by the Government Railway Policy. To quote a single instance, the huge districts in Oudh, embracing Nawabgunge, Bahraich, and Gonda, rich in produce of all sorts, but with little or no banking facilities, are points where branch banks might be established with little trouble and probably considerable profit. To purchase grain, oil, seeds, &c, in these and many other important trade centres in the United Provinces, it is necessary to resort to the primitive and dangerous practice of transporting as luggage, with owner, cumbersome rupees by rail from Cawnpore, Benares, Agra, Allahabad, or Lucknow

As much as eight annas per cent discount for cashing Government Currency Notes is not unusual in the districts and during the first week of this month the Bank of Bengal, Cawnpore, has charged as much as four annas per cent on Allahabad Circle Notes

My Committee contend that Government Currency Notes should be legal tender at par throughout the circle of issue. The non-convertibility of such notes into cash or *vice versa*, except at a discount during many months of the year, hampers business in the Mofussil greatly, particularly in the case of low-priced commodities where the item of discount on notes, or transport of cash, often absorbs the largest share of the working margin. The foregoing proposition is, of course, not intended to apply to the case of Government Currency Notes of Circles other than that for which the notes in question were issued

In conclusion, I am to state that my Committee but claim to have attempted to treat the question under discussion from the point of view of the interests represented by this Chamber in the United Provinces and in the Punjab, unfortunately the desires of the Government of India, as also the mercantile interest of the various Presidency towns on occasion, particularly in the matter of railway extension and finance, of necessity, clash with those of the community engaged solely in the internal trade of the country

Dated 10th April 1890

From the SECRETARY, Upper India Chamber of Commerce, to the SECRETARY,  
Bengal Chamber of Commerce

I am directed to thank you for your letter No 235 of 21st ultimo, forwarding copy of Budget Statement. My Committee do not consider that there are any points in it involving the interests of the community which they represent that call for special comment, except in as far as the financial transactions and policy of Government affect the supply and price of money in Upper India.

2 Some two years ago Government changed its custom as regards the disposal of balances on hand, and has since held locked up at various points in the Mofussil, as reserves, the bulk of these funds. The district balances are not, as was previously the case, at the disposal of the banks for short-date advances, and they consequently cannot now do business on the basis of the actual cash in their vaults, further, it is understood that even when Government has no actual immediate need for money, large sums are frequently withdrawn and placed in the Reserve Treasury. Thus, a very considerable percentage of the bullion in the country has been rendered practically non-existent as far as trade is concerned, and the available currency reduced by the amount of these hoards.

3 The enclosed statement shows the highest point that the Bank of Bengal, Calcutta, minimum discount rate has reached in each month, November to April inclusive, for the past ten years. It will be seen that money has, since 1888, been at a very much higher level than was the normal state of affairs formerly, even including the time of the Russian war scare and other periods of political tension and disturbance. If in future during the produce season rates in the Mofussil are to continue to rule at from 12 to 15 per cent for first-class bills, the export and import trade of these Provinces will be, to all intents and purposes, paralysed. From November to April large sums are required to bring the cotton, oil-seed, wheat and grain crops into the market, and if money is not available on reasonable terms, the bazaar dealers and petty traders of small means, through whom the bulk of the business of the country is carried on, will be utterly unable to work, and this is practically the case to a notable extent at the present moment.

4 When bankers and merchants of approved standing have to pay abnormally high rates for accommodation, it means that the less well-to-do class cannot get funds for trade purposes, except at an exorbitant cost. As high as 20 per cent has been paid by dealers of fair commercial standing during the current year on short-term drafts. Be the reason what it may, in times of dear money Bombay and Calcutta appear always to be in the position to pay much higher rates of interest than up-country trade can stand, and therefore money is drained to these centres generally at the particular season of the year when it is most urgently needed in the Mofussil for produce. At these times the banks show a not unnatural disposition to do as little business as they can at their branches, so as to have the bulk of their funds available at the seaports above-named. It has been suggested that it might be feasible for Government to adopt some system that would allow of the Presidency Banks making advances against Government Paper from the Reserve Treasury balances, and that this, while reducing the indebtedness of the State to the public, would leave at the disposal of the banks for short-term loans on account of raw produce and piece-goods a large percentage of their funds, which are now swallowed up in advances made against Government Paper to speculators, the Exchange, and other banks.

5 My Committee, however, do not advance this as a remedy, they are not disposed to join in the discussion regarding the political or financial advisability of Government carrying heavy reserves of bullion, and not allowing its cash balances to be made available for trade purposes. They simply desire to direct attention to the disastrous effect of the present system on up-country business that it is hurting both cultivators and dealers, and if not modified, agriculture, as well as the trade in the Mofussil, and consequently that of the seaports, will be seriously crippled.

## STATEMENT OF BANK OF BENGAL, CALCUTTA, MINIMUM DISCOUNT RATES

—	1879-80	1880-81	1881-82	1882-83	1883-84	1884-85	1885-86	1886-87	1887-88	1888-89	1889-90
November	$\frac{5}{16}$ & 5	$\frac{5}{16}$ & 3	$\frac{5}{16}$ & 6	$\frac{5}{16}$ & 4, 5 & 6	$\frac{5}{16}$ & 7	$\frac{5}{16}$ & 8 & 4	$\frac{5}{16}$ & 4	$\frac{5}{16}$ & 6 to 5	$\frac{5}{16}$ & 3	$\frac{5}{16}$ & 6	$\frac{5}{16}$ & 4 @ 5
December	5 & 4	3	6, 7 & 8	6	7	4 & 5	4	5	3 to 4	6 to 7	5 @ 6
January	3 & 4	3 & 4	8 & 9	6	8 to 9	5 & 6	4 to 5	5 to 6	4 @ 5	8 @ 9	6 to 8, 9
February	4, 5 & 6	4 & 5	9	5	9	6 & 7	5 to 6	7 to 8	6 to 7	10, 11, 12	9 to 10
March	6 & 7	5 & 6	9 to 10	6, 7 & 8	9	7 & 8	6	8	7	12 @ 11	11
April	7 & 6	6	10 to 9	8, 7 & 8	9 @ 10 to 11	8	6	8 to 9	7 to 6	11 @ 10	11

Dated 14th April 1890

From the AGENT and CHIEF ENGINEER, Bengal and North-Western Railway Company, Limited, to the SECRETARY, Upper India Chamber of Commerce

In corroboration of the statement made in your letter of the 10th instant to the Secretary, Bengal Chamber of Commerce, regarding the effect of dear money on the export trade of these Provinces, I would beg to inform you that in the districts served by this railway there has been an excellent crop of linseed during the past season, but, owing to the dearness of money, the merchants say they have not the means of financing the crop, and the trade is practically paralysed.

Extract from the Proceedings of the Council of the Governor General of India, assembled for the purpose of making Laws and Regulations under the provisions of the Indian Councils Acts, 1861 and 1892 (24 & 25 Vict, Cap 67, and 55 & 56 Vict Cap 14)

The Council met at Government House, Calcutta, on Friday the 5th January, 1900

## QUESTION AND ANSWER

The Honourable Mr Allen Arthur asked —

“In view of the great public importance of the questions discussed at the recent conference between the Finance Department, the Secretaries of the three Presidency Banks and representatives of certain Chambers of Commerce, viz, the possibility of relaxing certain restrictions placed on the business in which the Presidency Banks may engage, and the sufficiency or insufficiency of their capital for such an extension, of their operations, together with other questions consequent thereon, and in view of the close attention with which this discussion is being followed by the Banking and Mercantile communities throughout India, I desire to ask if any indication can be furnished of the results of the recent conference, and any intimation given of the policy which the Honourable the Financial Member is prepared to recommend to the Government of India in the matter

“I would also enquire, if the proposed new bank is formed, what restrictions will be placed on the bank as regards its operations in Exchange”

The Honourable Mr Dawkins replied —

“I am glad to have the opportunity given to me by the Honourable Member's question to offer some general explanation, and if my answer assumes the form of a statement of some length, the importance of the subject

and the desirability of taking the public into our confidence in the matter may, I hope, be regarded as a sufficient excuse. I must commence by a brief reference to the history of the subject touched on in the question. Several of the witnesses before the recent Currency Committee expressed apprehension whether the banking resources of India had kept pace with the growing requirements of the country, and a separate minute was appended to the report of that Committee by Mr Hambro, advocating the establishment of a strong Central Bank in India. The Secretary of State, in introducing the budget in Parliament, associated himself with Mr Hambro's recommendation, and expressed a decided opinion that the export trade of India was being financed on too narrow a basis. I may perhaps be permitted to quote his words: "Undoubtedly, banking in India has not kept pace with the growth of trade and commerce. The Presidency Banks do their work very well, but their capital is small, and, as regards their available cash balances, these are almost entirely supplied by one account, namely that of the Government. The Government account forms a very much larger proportion of the cash balances of the Presidency Banks in India than is the case here, for at times the Bank of England could almost dispense with the Government account and still carry on their business, and it must be remembered that the cash balances of the Presidency Banks in India form a far more important banking factor there than do the Bank of England cash balances here, and that the flow and movement of cash in India is very much slower than is the case in England. I have certainly come to the conclusion from my experience that we are endeavouring to finance the export, commerce and trade of India on too narrow a cash basis."

"The ex-Secretary of State and Chairman of the Currency Committee, Sir Henry Fowler, took the same line, and explained that he himself would have signed Mr Hambro's recommendation, had his position as Chairman not precluded him from so doing.

"It was obviously due to such high authorities that their views should be examined with the greatest attention in India. Moreover, the receipt of these views synchronized with a request from the Banks of Bengal and Madras for a relaxation of the restrictions placed on the class of business they may transact. They desired authority to extend their operations beyond the securities of Guaranteed Railways, to securities of Assisted Railways and District Boards, and, as regards railways, the request made by the banks found a powerful advocate in the Acting Public Works Member of Council, Colonel Gardiner, who held strongly that the existing restrictions have seriously hampered railway development.

"The Government of India therefore proceeded to consult the Chambers of Commerce and the Presidency Banks on these important questions, and answers have been received from the three Presidency Banks, the Presidency Chambers of Commerce, and the Upper India Chamber of Commerce, containing valuable information and suggestions. But anyone reading these papers would be struck by the fact that certain of the suggestions require further elucidation, and still more by the fact that several of the opinions expressed are conditional in their character. It was therefore arranged, with the authority of His Excellency, that an informal and free discussion should take place between the Finance Department and the Chambers and Banks, with the object of an interchange of views and explanations.

"My Honourable colleague, Mr Allen Arthur, representing the Bengal Chamber, the Secretaries of the Banks of Bengal and Bombay and Madras, the latter in the double capacity of representative of the Chamber and of the Bank of Madras, met Mr Finlay, Mr O'Connor and myself. The Bombay Chamber, I am sorry to say, was unable, owing to the shortness of the notice, to send a representative.

"I think my Honourable Colleague would bear me out if I say that the discussion was of great utility, and enabled those who took part in it to arrive at a better understanding of the questions involved and also at a very much greater degree of agreement than had previously seemed possible.

"With regard to the first question, that of relaxing existing restrictions in certain directions, the Chambers and banks are unanimous in considering that the extension of the Bank's operations to the securities of Assisted Railway and District Boards is desirable. But the Bank of Bengal accompanied their

expression of opinion with a note of caution. Their letter states, 'My Directors are of opinion that these restrictions might be withdrawn with safety and advantage without, in ordinary circumstances, overtaxing the resources of the banks.'

I may say that the Government of India have also regarded the question with caution. Personally, I am in entire sympathy with the demand for relaxation if that can be accomplished without risk, and I look at the demand much more from the point of view of the general development of the country than from the special standpoint of the banks. But—and on this point I may speak for the Government of India as a whole—however much existing restrictions may hamper development, no proposal could be entertained which might lead to locking up the resources of the banks in securities not easily realisable, unless those resources can be shown to be amply sufficient in both dull and busy seasons. The disadvantage of the existing restrictions, as matters now stand, would be less serious than the risk of creating difficulties for the existing volume of business.

To come to the second question. The letters received reveal, and the discussion accentuated, a general consensus that, though the banks find it difficult to employ their existing capital in the dead season, yet in times of pressure in the busy season it is often inadequate, and that some means of temporarily expanding resources—some final banking resort—is absolutely necessary if the stringencies of the last few years are not to recur, and if the extreme and violent variations in the rate of discount, the very worst enemy to sound and progressive business, are to be avoided. I may quote from the letters of the Madras Chamber of Commerce and Bengal Chamber of Commerce. In the Madras letter I find that 'the Chamber is specially impressed with the urgent need for legislation which will enable the Presidency Banks to expand their supply of loanable funds in time of pressure.' The Committee of the Bengal Chamber 'are convinced that in the busy season the banking facilities in India are not sufficient for the trade and the satisfactory development of the country, and at times of pressure the existing arrangements for giving relief seem to them quite inadequate.' But if the resources of the banks are often inadequate for existing business, if the ordinary requirements of trade and commerce can only be met on the average, where is the margin for financing railways, and municipal and district enterprises, to say nothing of new industrial enterprises proposed on all sides?

Three means of expanding resources in time of pressure were suggested.

The first was that the Government should definitely undertake to make advances to the banks in time of pressure. I lay stress upon the word 'definite,' and I may quote a passage from the letter of the Madras Chamber of Commerce. 'It is absolutely necessary,' writes the Chamber, 'that any arrangement of this kind should be definite so that the banks could obtain funds, when necessary, at a moment's notice.'

The Madras letter hits the nail on the head, but, and I need not labour the point which was unanimously recognised in our discussion last week, it is simply impossible for the Government to pledge themselves by any definite assurance, and to give the banks an open credit to operate upon. When pressure occurs in India, it is usually general and extends to the Government, and the Government might very well find itself absolutely unable to provide loans. The limits of Government action in this direction have, moreover, recently been laid down by the Secretary of State, and it is within these limits that Government assistance must necessarily be confined.

An alternative remedy has been proposed by the Bank of Bengal, that Government should undertake, when the bank rate rises to a certain height, to give loans from the coin reserve of the Paper Currency Reserve. The proposal is open, in my mind, to fatal objections. It is the duty of Government to keep a coin reserve sufficient to ensure the convertibility of its notes. If the proportion of coin to securities in its total reserve is large enough to allow of loans being made, then that proportion is unnecessarily large. In such a case securities should be substituted for superfluous coin, and the general taxpayer, not any particular section of the taxpayers like

the banks, should benefit thereby. The coin reserve should be exclusively devoted to ensuring convertibility, should be limited to what is necessary for that purpose, and should be held sacred. The answer was made last week in the course of our discussion that the German system—now so generally, and in my opinion, rightly, held up to admiration—of issuing uncovered notes on payment of a tax implied possible resort to the currency reserve for cashing such notes. This may be admitted. But the difference is that in Germany the notes circulate freely as currency, whereas it is very doubtful whether this would be the case in India, where the demand is for hard cash. The mere existence of this doubt, which was, I think, admitted by every one who took part in the discussion, makes an enormous difference, and, moreover, if Berlin or Paris want reinforcements of gold, they can procure it in a few hours from neighbouring centres. India is cut off and isolated, and must proceed with great caution. Her cash reserve must be regarded with the utmost jealousy.

“The third remedy proposed was that the banks should be given access to London—in other words should be allowed to pledge securities and raise money in London. It was argued that the permission to pledge and borrow in India, which had been extracted from the Secretary of State in 1878 after years of correspondence, had remained a dead letter owing to the peculiar circumstances of India. The objection taken by the Secretary of State to extending this permission to the London market, the risk that the banks might engage in exchange business into which, owing to the great uncertainty of exchange, a large element of speculation entered, may also, it was urged, and I certainly believe, be considered to have disappeared. But I was obliged to point out that the Secretary of State had founded his refusal not only on the question of exchange, but had no less strongly objected to the risk of the resources of the banks being locked up in London. Nothing had happened since 1878 to meet that particular objection. On the contrary, the trade and needs of India have largely increased and banking resources have scarcely increased *pari passu*. I was also compelled to draw attention once more to the relation of the Government deposit to the bank's cash balance in the busy season, and to cite Sir J. Westland's well-known criticism. That criticism has been a good deal disputed. It has been said that the cash balance is not derived principally from one account, but is made up from all accounts. I am perfectly certain that Sir J. Westland would be the first to admit this obvious truism. It has also been said that the Government would not deplete its balance with the banks of, say, 1½ crores, exclusively and primarily, but would draw upon its general balance of eight to ten crores, of which the balance with the banks only forms a part. This is an equally obvious truism, and it is absurd to suppose that my predecessor had not reckoned with it. But Sir James Westland's criticism is really unshaken, inasmuch as he insisted that a situation is unsound when one depositor—and that depositor a depositor peculiarly exposed to sudden calls and contingencies—is placed in a position in which he could and, indeed, might be obliged, very suddenly, to deplete the cash balance to a serious extent.

“Indeed, on looking closely into the figures, I find that there have been months in which the Government deposit exceeded the whole cash balance of the banks. Not long ago, at one bank the Government deposits exceeded the cash balance by 17 per cent.

“Nowhere is such a position so unsound as in India—where, as the Secretary of State has pointed out, the cash balance is so important a banking factor. The banks have excellent reserves, but could their securities be converted into liquid cash in India at a moment's notice? The Bank of England is far more fortunately situated, but the Bank of England nevertheless keeps the proportion of the exchequer balance to the cash balance within such limits that the sudden total withdrawal of the exchequer balance would hardly affect the bank.

“I am, therefore, compelled to the conclusion that it would be out of the question for the banks to press this proposal, greatly advantageous as its concession would be, unless they propose it under circumstances that may allow of its being entertained with safety, and couple it with the prospect of some increase in capital. That an increase of capital should be expected

to go straight away into a cash balance and reinforce it for any period is, of course, absurd. I only mention this, because the imputation has been made that misapprehension exists on this point. But an increase of shareholders' capital, which would obviously find employment in the busy season at any rate, would involve a corresponding increase in the cash balance, and would relegate the Government deposits to a position of less dangerous importance.

"Another objection to the proposal of the banks under existing circumstances would, I think, be the consideration that, though access to London might conceivably be granted to one strong Indian Bank connected with Government, the question would wear another aspect if three banks are to seek for access. The Government could follow and, if necessary, perhaps influence the operations of one bank. It would not be so easy to do this with three banks, and the possibility of three Presidency banks, each connected with Government, competitively pledging Indian securities against each other in London could scarcely be viewed with favour.

"It seems, therefore, that if access to London is of paramount importance, and it would appear to be so, as I am convinced of the absolute necessity of the banks having a last resort, the fusion of the banks and an increase of their capital are conditions that are inevitably precedent. I may say that, if those conditions were complied with, access to the London market for the purposes indicated by the banks would undoubtedly seem to be highly desirable and strongly to be recommended.

"Another point which was discussed at our meeting last week, that of the desirability or otherwise of transferring the note issue to the banks, immediately confronted us again with the question of their fusion and expansion. A transfer which might be advantageous and feasible if made to one Central Bank would probably be impracticable and attended rather with disadvantage than otherwise if three banks were concerned. The conditions of a transfer of the note issue that were discussed were that the existing note issue should be made over to a single bank, Government retaining the profit on the present currency investment, but indemnifying the bank for the cost thereof from the sum now allotted for that purpose. And, as regards any further issue of notes, the bank would be obliged to keep a reserve partly in coin and partly in securities and would gain the profit on this investment after defraying the cost of the additional notes. Whether a Central Bank should or should not undertake to cash its notes without discount at the three Presidency Capitals, is to my mind a matter for further examination. It would be much to the public advantage if this could be done, and possibly the expenditure involved in such a liability could be made up to the bank in one form or another.

"To recapitulate, I may now say that it seems to me most desirable in the interest of the general development of India, and of railway construction and municipal enterprise in particular, that the class of business in which the banks may engage should be extended. It is even more important that an ultimate banking resort should be afforded to the banks, and that access to London should be authorised. I am therefore prepared to press these questions earnestly upon the Government of India, provided that the conditions are forthcoming, which would justify and render practical such important changes, namely, that the Presidency Banks should amalgamate and should undertake some increase of their capital. It would also, I think, be to the general advantage to transfer the note issue to a bank, but this question is not so essential, although I should be ready to support such a measure. I may perhaps, before concluding, advert to some objections that have been made to any scheme of this kind. It has been stated that the banks would be sacrificed to some financial Moloch in London. As the existing shareholders, I imagine, would have some prior right to subscribing to new capital—as much of this capital, I hope, would be subscribed in India—it seems to me that this apprehension melts into thin air, so long as we deal with a scheme based upon amalgamation. Moreover, I take it that the interests of existing shareholders would assuredly not be prejudiced. It is to be surmised that they would receive new shares equivalent to the average market value of the old shares that would be cancelled, while at the

same time, they would participate in the prospects and advantages opened out to a larger institution

"It has also been objected that local requirements would receive less attention, and that union would mean subordination of one or two Presidencies to a third. I cannot conceive for a moment that the Government of India would tolerate any scheme of fusion involving the subordination of one Presidency to another, or the neglect of local requirements. I would, certainly, Your Excellency, never have the hardihood to bring a proposal of this nature before you. The amalgamated banks, in my view, would have the advantage of an expert direction in London particularly conversant with both the English and Indian money markets, elected by and responsible to the shareholders, who would be mainly in India. In India itself there would be a central management apportioning its time and energies between the various centres, and in close relation to local directorates at the Presidency towns. Nothing would be more unwise for such a bank, as I have ventured to foreshadow, than to deprive itself of the valuable local knowledge, skill and experience of the existing directorates and managements of the Presidency banks. Nothing would better safeguard local interests, wants and requirements than a continuance in a new form of existing local experience.

"In so roughly summing up the policy which may be recommended to the Government of India, a last objection appears to be entertained in some quarters outside the Presidency Banks themselves—and is specifically touched upon in my Honourable Colleague's question—the objection that a bank formed from the union of the three Presidency Banks would monopolize exchange business of all kinds. I would remind those who may be apprehensive on this point that, when the Presidency Banks in 1877 addressed the Government of India upon the question of borrowing in London, they themselves proposed restrictions which would confine them to raising money by pledge of assets and to making remittances in payment of stock or other authorized investments and in repayment of loans. I see no reason why these restrictions should not be maintained.

"I am painfully aware that in so rough a sketch and in so rapid a survey of a matter of this magnitude and importance, many details have been omitted, and many points passed over, which require explanation. But if the policy I have attempted to indicate should find favour, I believe that with the able co-operation of the Chambers of Commerce and of the Banks, these details could be filled in, and any outstanding differences could be adjusted. That co-operation, I, know, is always willingly given to the Government of India, and perhaps I may express the sincere hope that Your Excellency's Viceroyalty may see the establishment of the gold standard, followed by a comprehensive measure which will give India the full advantage, through access to London, of the new currency upon which she has embarked, and will remedy a situation which is on all hands admitted to be wholly unsatisfactory, to be daily becoming more unsatisfactory, and to be gravely prejudicial to the development of the country."

No 17, dated 18th January 1900

LETTER from the GOVERNMENT OF INDIA to the SECRETARY OF STATE  
FOR INDIA

In continuation of our despatch No 301 of the 24th August, we have the honour to address Your Lordship, on the subject of banking facilities in India. The necessity for dealing with the subject, which we explained in that despatch was emphasized by the circumstances attending the receipt shortly afterwards of an urgent request from the Government of Bombay to authorize the Presidency Bank to deal in the securities of the Bombay City Improvement Trust. As these securities stand in the category of securities of Companies and Railways guaranteed by the Government of India, we had no hesitation in acceding to the wishes of the Bombay Government, and we made the necessary addition to Section 36, subsection 3, of the Presidency Banks Act, which limits the Presidency Banks to dealing in the securities of



Railways or of other Companies, the interest whereon shall have been guaranteed by the Secretary of State in Council. But while this legislation was pending, we also received representations from the Madras Government and Presidency Bank of Bengal, asking respectively that the Banks should be empowered to deal in the securities of District Boards issued with the authority of Government and in the securities of Assisted Branch Lines. The request regarding the securities of Assisted Railways was not new, and had already been rejected by Lord Elgin's Government.

2 We determined that it was not possible to reverse this decision upon such short notice, and without full consideration of the question whether the circumstances of the Banks rendered the relaxation of the Act advisable, and that the same objections must be entertained to the proposal of the Madras Government. At the same time looking at the matter from the standpoint of railway development, we were impressed by the advantages of enabling Branch Lines to procure the readiest and most immediate financial support. The District Boards also have a claim to similar facilities. The discussion of these questions arose shortly after we had received the report of the Currency Committee, with the expression of Your Lordship's views thereon, in which our particular attention was invited to the separate recommendation made by Mr Hambro in favour of constituting a strong Central Bank in India. The importance given to this subject in the subsequent debate in the House of Commons on the Budget Statement and the numerous complaints made by witnesses before the Currency Committee of violent fluctuations in the rates of discount in India and of recurring periods of stringency in the money markets of Calcutta and Bombay confronted us with much wider questions than the particular issues raised by the banks. It was necessary to consider whether banking resources have kept pace with the growing trade of India, and whether the whole trade of India is not being financed on too narrow a basis, in short, whether a general revision of the banking arrangements in India is not desirable.

3 We decided, therefore, to elicit the views of the Local Governments, the Chambers of Commerce, and of the Presidency Banks on these important questions. Basing our action upon the request put forward by the Banks of Bengal and Madras, we sent round a circular letter, copy of which is enclosed. In it we invited an expression of opinion as to whether the Presidency Banks Act should be amended so as to allow of their dealing in the securities of Assisted Railways and District Boards, and whether the existing capital of the Presidency Banks was sufficient to admit of these larger powers being given them. Copies of the answers received from the Chambers of Commerce and from the Presidency Banks are enclosed, and any further answers that may reach us from the Local Governments shall be duly forwarded. A perusal of these letters, which contain much information and valuable suggestions, will, we think, leave upon Your Lordship's mind the impression that many of the opinions recorded required further elucidation and were peculiarly conditional in character. It was, therefore, arranged that our Honourable Colleague in charge of the Finance Department should meet the representatives of the Chambers of Commerce and Banks in a free and informal conference, with a view to an interchange of explanations. The result of that conference, as was stated in the answer given by our Honourable Colleague in the Legislative Council on the 5th instant, revealed a much greater degree of agreement between the Government and the various institutions concerned, and between the various institutions themselves, than appeared from the letters themselves. We do not wish to press this point unduly or to convey the idea that there are no outstanding differences of opinion. But having regard also to the change which has come over the attitude of the principal organs of the press towards these questions, we venture to think that there is, at any rate, sufficient agreement to render probable ultimate acquiescence in certain recommendations which we desire to make, and that we are not inviting Your Lordship's consideration to a matter which will have no practical issue.

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5. In dealing with the second point, whether the existing capital of the Banks is sufficient to admit of the wider powers advocated being granted to them, it will be observed that the Chambers of Commerce and the Banks preferred to pass at once to the larger question of the general banking resources of India. There is a remarkable unanimity of opinion that, though the Banks find it difficult to employ their capital profitably in the dead season, yet in the busy season their resources are inadequate. The Bengal Chamber, for instance, is 'convinced that in the busy season the banking facilities in India are not sufficient for the trade and satisfactory development of the country, and that at times of pressure the existing arrangements for giving relief to them are quite inadequate.' It would be impossible, looking at the history of recent years, to dispute the correctness of the statement. But if the resources of the Banks are not more than sufficient to meet the ordinary requirements of the present trade and development on the average, it may be asked where the margin is to be found for financing railways and municipal or district undertakings without prejudice to existing interests? The allegation, again, that the Presidency Banks cannot profitably employ their capital in the dead season must be regarded in the light of the employment which they find for their capital during the whole year, for though the dead season, which is becoming less marked, may still be more marked in India than elsewhere (and in all countries there must be relatively busy and relatively idle seasons), yet the large and steady profits of the Banks and the important sums put away to reserve sufficiently indicate profitable employment of their capital in any twelve months.

6. Your Lordship will further observe in the correspondence that the Banks draw a distinction between shareholders' capital and banking resources in general, with particular reference to facilities for temporarily expanding banking resources other than permanent capital. The word "capital" was advisedly used in our reference to the Chambers and Banks. It was not forgotten that permanent capital might be supplemented by other facilities such as the banks have indicated. But we felt that other facilities depended, to a great extent, upon an increase of capital, and were conditional upon it. Attention had been repeatedly drawn before the Currency Committee to the dangerous tendency of the Banks and of trade generally in India to look to the Government in any difficulty. That tendency cannot be corrected unless the Banks can look to some stable and permanent resources of their own. It was, moreover, within our recollection that when the Bank of Bengal advocated the amalgamation of the Presidency Banks in 1867, it was proposed, and the proposal apparently commanded assent, that the capital of the united Bank should be 5 crores. Yet the capital of the three Presidency Banks was then double the amount it had stood at six years previously, while there has been no increase since. We also bore in mind the undesirable proportion which the Government deposit often bears to the total cash balances of the Bank, the Government balances having on some occasions actually exceeded the total of the cash balance at individual Banks. Such a proportion cannot, we think, be rectified unless the banks attract more deposits and open more branches, which would be rendered possible by an increase of permanent capital. The number of branches has remained virtually stationary in late years, while several local Banks with very moderate capital have sprung up and attract very considerable deposits. But it cannot be said that these local Banks occupy the whole field, and we would invite Your Lordship's attention to the serious claim put forward by the Upper India Chamber of Commerce for the establishment of branches by the Banks which enjoy the advantages of the Government balances. Generally speaking, moreover, we reflected that the growth of trade and the development of India in recent years render necessary some increase of permanent banking capital, and if the local Banks to which we have referred above have to some extent met this want, it is probable that the withdrawal of capital by other Banks with head-quarters in England concurrently with the fall in exchange has more than counterbalanced this re-inforcement. These observations will, we venture to think, be borne out by an examination of the various measures suggested to provide for temporary expansion of banking resources.

7 It will not be necessary to deal at much length with the first measure suggested, namely, that the Government should undertake to make advances to the Banks in time of pressure. But to obviate any possible misunderstanding, we may explain that this is in nowise a question of the return by Government into the general circulation of money raised by taxation. Experience has proved in India—on two occasions at least prior to the establishment of the Government Reserve Treasuries the banks demurred to the Government drawing out its own deposits freely—that a certain sum must be kept apart under the absolute control of Government, while, in addition to the Reserve Treasuries, there are also treasuries at places where the banks have no branches. It is from these sources that the Banks desire to receive advances. But no undertaking of this kind on the part of Government would meet requirements unless it were unconditional, for, as the Madras Chamber of Commerce justly observes, “it is absolutely necessary that any arrangement of this kind should be definite, so that the Banks could obtain funds, when necessary, at a moment’s notice.” It would be manifestly impossible to give any such pledge. Monetary pressure in India is usually general, and the Government, not being exempt from sudden calls at such times, might very well find itself absolutely unable to advance funds when urgently called upon to do so. We recognize the desirability of affording relief to the public when practicable, but the limits within which this can be done have recently been laid down by Your Lordship, and beyond those limits it would not be possible to travel. Moreover, regarding the general danger involved in the financing of trade by Government we have before us the words of Lord Salisbury’s despatch of 6th May 1875: “Capital supplied by Government, and not representing the savings of the community, is a resource on whose permanence no reliance can be placed, and which therefore tends to lead traders into dangerous commitments.” The warning conveyed in those words still holds good.

8 An alternative measure suggested by the Bank of Bengal is that, when the Bank rate rises to a height that indicates undue pressure, loans should be made from the coin reserve of the Paper Currency Department. This is a suggestion which is open to fatal objections. Our duty, as we conceive it, is to maintain that proportion of coin in our total currency reserve which is necessary for ensuring convertibility. If the proportion were large enough to admit of loans being made therefrom, then it would be unnecessarily large, and the general taxpayer, not any particular section of the community like the banks, should benefit by the substitution of securities for superfluous coin. It has been urged in answer that the German system, which now finds so much favour, of allowing the issue of uncovered notes on payment of a tax implies possible resort to currency reserves for encashing such notes. And the difficulty of giving out coin from the Paper Currency Reserve might, it is contended, be obviated by the Government loans being made in the form, not of coin, but of uncovered notes, on payment of a sufficiently high rate of interest for this accommodation. We are not prepared to negate this modified suggestion absolutely. But we may point out that in Germany notes circulate freely as currency, and in India the principal demand in times of pressure is for hard money up-country. India, moreover, is peculiarly isolated and could not, like Germany, procure a reinforcement of gold from a neighbouring market. We propose, however, to return to this subject again.

9 The third measure proposed for securing an ultimate banking resort is that the Banks should be given access to the London market in other words, should be allowed to pledge securities and raise money in London. The permission given by the Presidency Banks Act of 1876 to deal in the securities of the United Kingdom has remained a dead letter, and the authorization conferred by the amending Act of 1879, to pledge and borrow, as long as it is confined to India, will also remain a dead letter, while, it is forcibly insisted, one objection then urged to extending the concession may be considered to have happily disappeared, namely, the risk of the Banks becoming engaged in exchange business into which, until recently, there entered a large element of speculation. The objections of Your Lordship’s

predecessor to extending the permission to England were not, however, limited to the question of exchange. He was no less strongly opposed to the proposal on the ground that no risk should be incurred of the resources of the Banks being locked up in London when they might be required in India. It does not seem to us that whatever force there was in that objection has been at all removed by the subsequent course of events. On the other hand, the position of the Presidency Banks in one important respect, which has been commented upon by Your Lordship, has certainly not improved. We refer again to the proportion of the Government balances to the total cash balance of the Banks in the busy season. There have been occasions in recent years in which the Government deposits have exceeded the total cash balance of an individual Bank by 10 to 17 per cent. The Presidency Banks have excellent reserves, it may readily be admitted. But these reserves could not, in the peculiar circumstances of India, be suddenly converted into cash, and it seems therefore eminently undesirable that the account of one depositor, and that depositor a Government exposed, as the Government of India is, in a most unusual degree to sudden calls and emergencies, should occupy a position of such dangerous importance. To look to no graver contingency, it is clear that a sudden call by Government for its money would influence discount rates in a manner which would seriously hamper trade. It would therefore be a doubtful experiment to allow to Banks, so situated as regards their cash balances and the possibility of realizing their investments, freedom in operations outside India, or to encourage the trade of India to look upon this remedy as sufficient in itself. Recourse to the London market might indeed not always even be practicable, and even if it were practicable, and were undertaken to increase temporary resources, the operations of the Banks, however beneficial in one direction, might involve questions of repayments and renewals of loans which would create a new element of uncertainty, and might interfere with the discretion of Government as regards its deposits. While we do not, therefore, dispute that it would be advantageous under altered circumstances to give the Banks a last resort in London, and while we fully admit the desirability of contributing to facilities for temporary expansion of resources, it is to an increase in their permanent capital which, finding employment in the busy season at any rate, would lead to larger balances, that the trade of India has a right to look primarily for adequate relief. The question of allowing access to London, again, wears a different aspect when examined in relation to three Banks from the complexion that it would assume in relation with one Central Bank. It would be more difficult to follow the operations of three banks than of a single institution, and we could not contemplate with equanimity the contingency of three Presidency Banks all connected with Government, competitively pledging Indian securities in the London market.

10 Another important point which arose in the course of the recent discussions with the Banks was the question of transferring the note issue to a single Bank. The transfer of the note issue to more than one Bank has not even been suggested, and indeed it is not necessary to mention it. The conditions of a possible transfer to one Central Bank that have been suggested are as follows. The existing note issue, with the custody of the reserve placed under Government supervision, should be made over to a Bank, Government retaining the profit on the present currency investment, and indemnifying the Bank for the cost of the note issue from the sum now allotted in our estimates for that purpose. As regards any further issue of notes, the Bank would keep a reserve under Government inspection of one moiety in coin and one moiety in approved securities, and would receive the net profit on these additional issues. This is a proportion which is generally favoured by modern authorities, and that was recently adopted, with the concurrence of Her Majesty's Treasury, when the new National Bank of Egypt was founded in 1898. In no case should the existing notes be suddenly withdrawn. They might be replaced as outstanding notes are withdrawn by new notes of the Bank if it were decided that the Bank should issue a new form of note. But as any change in the form of the note might involve temporary contraction in the paper circulation, as change in such matters is peculiarly undesirable in India and as the reserve would be under

the supervision and control of Government, we should have no objection to the notes continuing in their present form, with the possible addition of the name of the Bank and the counter signature of the officer employed to supervise the reserve. We are of opinion, though not forgetting the objections that have been previously raised to such a course in India, and indeed recently adverted upon by so high an authority as Lord Northbrook, that there is nothing in the peculiar circumstances of India to prevent the note issue being transferred to a Bank. We are, moreover, disposed to believe that it is through the agency of a Bank that the note issue may have a larger development in India. An ulterior advantage to which we would look in the transfer of the note issue would be the encashment without discount of the notes at the three Presidency towns at least. It is possible that this undertaking would in the beginning involve some outlay on the part of the Bank. We are not without expectation, however, that arrangements could be made for meeting this difficulty, and the abolition of our currency circles is a matter, apart from any question of transferring the note issue, that calls for attention.

11 But while we see advantages in the transfer of the note issue to a Central Bank, and should favourably regard any proposal in that direction, we do not regard the transfer as absolutely essential or as one of the remedies which the present situation imperatively demands. Moreover, we realize that the transfer must involve Government in some expense, and render necessary the increase of our cash balances by at least two crores, and possibly by a greater amount, owing to the assistance which our Comptroller General now derives from the currency chests in his resource operations. We refer to a system which has gradually grown up in India. The Comptroller General, for instance, on receipt of land revenue up-country, say at Umballa, directs a certain amount of this receipt to be passed into a currency chest at Umballa, and after telegraphic intimation that this has been done releases a corresponding amount of coin in the Calcutta Paper Currency Reserve to meet Your Lordship's Council Bills or other disbursements. The amount passed into the currency chest at Umballa is not sent down to Calcutta to fill up the void created—that void is filled up as rupees gradually accumulate in Calcutta, and eventually the rupees in the Umballa currency chests are passed over to the General Treasury at that place. Strictly speaking, no doubt, the coin reserve should be held at the place (Calcutta) where the notes can be presented for payment. But in an emergency the rupees could, there is little doubt, be sent down from up-country to Calcutta in time to meet demands, while the expense of actual remittances of coin is avoided, and the Comptroller General is enabled to work with lower balances. The system, however, has perhaps been unduly extended in recent years, and we propose rather to curtail it. One result of any transfer of the note issue to a bank would be to prevent our Comptroller General helping himself with the currency chests as at present. The increase in his balance which would, on this hypothesis, be rendered necessary might be met by substituting two crores of new securities for two crores of rupees in the currency reserve, and placing the two crores of coin in the general balances. We should view such a substitution without any alarm. It appears to us that the existing coin reserve, 17 crores of coin as against 10 crores of securities, is unnecessarily large. The use to which the coin reserve has been put under the system just described, and the readiness with which the banks and Chambers of Commerce indicated it as a source for loans, bear out our contention. We would prefer to advance gradually to a situation in which one-half of the Paper Currency Reserve should be in coin and one-half in securities. And, whether the note issue remains with the Government or is transferred to a bank, the profit on the increase of securities might with propriety be devoted to securing the abolition of the eight currency circles or the encashment of all notes at the Presidency towns.

12 We trust that the foregoing remarks will have made it clear to Your Lordship that it is desirable to relax in certain directions the restrictions now imposed on the class of business which the Presidency Banks may transact, but that it would be imprudent to relax those restrictions under existing

conditions. It will also be apparent that the general banking system is unsatisfactory, but no less apparent that the remedies proposed would be of doubtful efficacy in present circumstances, and that they could not be recommended unless the Presidency Banks unite their resources and improve their position. Objections, however, have been urged to the fusion of the Presidency Banks in spite of the general advantages derivable from amalgamation. But these objections are largely based on misapprehensions, and would, to a great extent, be removed if the principles on which amalgamation should be affected are explained. It is not the case that Indian interests would not be consulted. The existing shareholders of the Banks would justly claim a prior right to subscribing for new capital, and a very large proportion of that capital would, without doubt, be subscribed in India. At the same time the interest of the shareholders in their present property would be strictly conserved and safeguarded, while they would participate in the prospects and advantages opened out to a larger institution. No local requirements be sacrificed or one Presidency be unduly subordinated to another. Nothing would be more unwise than to discard the valuable local knowledge, skill, and experience of the existing directorates and managements of the Presidency Banks. Such local experience would no doubt be continued in the form of branch directorates related to a central management, apportioning its time and energies between the various provinces, and supervised by an expert direction in London. The assent has also been made that no increase of permanent capital is necessary. In this opinion we cannot agree, and we trust our arguments will have convinced Your Lordship that the Banks must strengthen their position in this respect. We will only add, though we strongly recommend that an amalgamated Bank should be given a last resort in London under proper conditions, that such a Bank will thereby become the last resort in India, and that both the Government and the trade of India have a right to look for ample strength in such an institution. The objection has proceeded in some measure from exaggerated ideas of the fresh capital which the amalgamated Bank would be expected to raise. We believe that an amount of three crores, equal to two million sterling, would be sufficient to ensure stability and would have every prospect of being fully utilized in a short time. There is no reason, in our opinion, to go beyond this limit, but we admit that the exact amount of fresh capital is a question which may be left for further discussion with the Banks and Chambers of Commerce, if they assent in principle to an increase. There still remains one objection in connection with allowing a Central Bank access to London, which has been pressed upon us by the Exchange Banks who apprehend that such a bank, enjoying the use of the Government balances and possibly entrusted with the note issue, would be placed in a position of unfair competition with themselves. We cannot see that the Exchange Banks make out a strong claim for protection, and a suggestion which has been made that a Central Bank should be bound to make any and all remittances through their agency is out of the question. But there is no desire to disturb existing business unnecessarily, and we think that the restrictions proposed by the Presidency Banks in 1877, namely, that they should be confined to raising money by pledge of assets and to making remittances in payment of stock or other authorized investments purchased or acquired for the Bank in England, and in repayment of loans arranged for them, might be maintained.

13 To a bank of this character constituted on a sterling basis we should have no objection to transfer our note issue on the conditions recited. The question would then arise to what extent the coin reserve should be held in gold or silver, both metals being unlimited legal tender in India. The experience which we shall shortly acquire of the facility or otherwise with which sovereigns will pass into the general circulation of the country may enable us to advise Your Lordship further on this important point. We would be inclined at this juncture to say that the Bank should not hold less than five millions in gold, this being the minimum gold reserve that we contemplate maintaining for the present, as explained in our despatch of the 14th December last. By minimum we mean a minimum amount except in so

lar as this might be temporarily reduced and replaced by silver through the action of Government. For the gold reserve, whatever its amount, should be so far at the disposal of Government that Government should have the right to take the whole or part of it over at any time on paying into the reserve the equivalent in rupees. As regards paying out gold, the Bank should occupy the same position as the Government of India occupies at this moment, or as the Bank of France holds, namely, that it should be under no legal obligation to pay out gold. Ultimately, perhaps, and in agreement with the Bank, certain classes of notes might be declared payable in gold at the option of the holder. But there is no present necessity for entering on this question.

14 We have also carefully considered, in connection with the establishment of a strong Central Bank, whether the German system of issuing uncovered notes on payment of a tax could not be introduced. In our opinion, if it were possible to adopt such a system at all, it would be greatly preferable to adopt it in connection with a bank, to which the note issue had been transferred. Theoretically we admit that the system might be grafted upon the present management of the paper currency by Government. But a bank would be able to measure the need and extent of accommodation much better than a Government could hope to do, and we believe that in all countries where it has been adopted, the agency of a bank has been chosen for working this system. Moreover, in India recourse in any form to a currency reserve in the hands of Government would encourage the dangerous tendency to look to and rely upon Government exclusively. From this point of view there would be particular objections to applying the system to the currency reserve while it remained under Government control. We have stated above that the demand in India being generally for hard cash it is probable that a very large proportion of any uncovered notes issued would be immediately passed into the bank for cash. But only experience could show what that proportion would be, and it may be found that the notes would return less rapidly than is anticipated, while the authorisation might prove a useful alternative last resort to the bank in the case of the London Market being temporarily unavailable. The Bank of Bengal, indeed, claims that in 1860 the Bank, which then possessed the right of note issue, did, under the sanction of Government, successfully avail itself of this expedient during a monetary crisis. But we think that there were circumstances on that occasion which do not allow the instance cited to be regarded as a complete precedent. We would, on the whole, recommend that a Bank, fulfilling all the other conditions we have enumerated, should be allowed to issue uncovered notes upon the payment of a tax of 10 per cent.

15 It must also be expected that a Bank of this standing will claim, with some reason, the suppression of the Reserve Treasuries, which are a necessary but undesirable contrivance, and the gradual transfer to itself of the whole Government balances at head-quarters. It would, however, be unwise and impossible to make any pledge on this point. The larger the Bank's resources are, and the more extensive the area covered by its branches, the easier will it be for Government to proceed in the direction here indicated.

16 In conclusion, we may perhaps be allowed to express the belief that, if Your Lordship finds it possible generally to accept the recommendations we have put forward, remedies may be found for a situation admitted on all hands to be unsatisfactory, and to be becoming more unsatisfactory every year. We should then look to a control being exercised over the money market which the Presidency Banks do not pretend to have gained, to greater efficiency and to unity in the management of banking resources, to a more rapid return into the general circulation of money raised by taxation, to an accelerated development of railway and other enterprises, and to a relative steadiness in the rates of discount which would be of vital importance to sound business in this country. It is only through some comprehensive measure of this character, which would increase the permanent banking resources of India while at the same time opening the door

to a last banking resort, that India may count upon reaping the full advantage, through access to London, of the currency policy upon which she has embarked

Letter from the GOVERNMENT OF INDIA to the SECRETARY OF STATE FOR INDIA,  
No 56, dated 22nd February 1900

MY LORD,

WE have the honour to forward, for your Lordship's information, a memorial addressed to his Excellency the Viceroy, in which the Exchange Banks of Calcutta protest against the suggestion that a new bank formed by the amalgamation of the three Presidency Banks should be allowed to borrow in London by pledge of assets or otherwise and make remittances to England by bills of exchange or otherwise in repayment of loans and also in payment of the price of stock or other authorised investments purchased or acquired for the bank. The Memorialists admit that they can have no objection "to the mere amalgamation of the Presidency Banks," and their specific prayer appears to be confined to the suggestion in the 21st paragraph that the sterling transactions of the proposed Bank of India "should be confined to the shipment and re-shipment of gold, and that the bank should be prohibited from selling or buying sterling bills or selling or buying telegraphic transfers save, of course, through existing channels, namely, the Exchange Banks."

2 As your Lordship will now have learned from our Despatch No 17, dated the 18th January 1900, the suggestion which has aroused the apprehensions of the Memorialists has been definitely adopted by our Government and submitted for your Lordship's approval. Our despatch contains a full statement of the grounds on which our proposals are based, and in particular includes a brief expression of our views on the claims now urged by the Exchange Banks. We should have been content to forward the present memorial without comment did we not think it due to the Memorialists and the important interests that they represent to show that we have not failed to give the fullest consideration to the objections and suggestions that they have put before us.

3 It is stated by the Exchange Banks in the first and second paragraphs of their memorial that for the last forty years they have "practically financed the whole export and import trade of the country," while the Presidency Banks have devoted themselves entirely to financing the internal commerce. We cannot for a moment admit the correctness of this assertion. Though the Presidency Banks have hitherto been prohibited from engaging in exchange operations their resources (and through them the resources of the Government also) have been freely placed at the disposal of all sections of the commercial community, including the Exchange Banks themselves who now imply that they have financed the whole foreign trade with their own capital exclusively. On this point we may let the Memorialists speak for themselves. In December last the associated Exchange Banks deputed two representatives (who are among the signatories of this memorial) to meet our honourable colleague in charge of the Finance Department and to urge upon the Government that any loans made by the Government should be made equally to the Exchange and to the Presidency Banks. When it was intimated that the Government would be unlikely to depart from their past practice of giving all loans *through* the Presidency Banks, the deputation asked that the Presidency Banks should not be permitted to pass on the Government money except to the Exchange Banks, or at any rate that the Exchange Banks should have the first call on it to the exclusion of local banks and merchants, European and Native. A few weeks later the Government were suddenly and urgently pressed by the managers of two of the Exchange Banks to advance Rs 30 lakhs to the Bank of Bombay. It was represented that unless the money was forthcoming, there was danger of a serious commercial crisis, and of an important failure. The Exchange Banks, it was explained, would not provide money for their customers, though money could be obtained in a few hours under Act II of 1898, because they objected to buying telegraphic transfers at the rate at which your Lordship was then selling. Sooner than



have recourse to this means of obtaining funds they frankly preferred to let the crisis come. Happily the crisis was averted, mainly, we believe, by the action of one of the Presidency Banks.

4 It would therefore seem that the impression conveyed by the opening paragraphs of the memorial requires some qualification. At least it is not clear that the foreign trade of India can invariably rely upon being financed by the Exchange Banks, who, very naturally and properly, employ their money wherever it can be employed to most advantage, nor is it certain that the Exchange Banks are free from the besetting tendency to look to the Government balances instead of to their own resources. The recommendation, therefore, that the proposed amalgamated bank should be allowed, under certain restrictions, to borrow in London is not ruled out of court *in limine* by the consideration that the foreign trade is already amply financed by institutions exclusively employing their own capital.

5 But the serious objections of the Memorialists are that the restrictions which it is proposed to place upon the operations of the projected bank are insufficient, and will expose them to dangerous competition. Moreover, they argue that the competition to which they fear to be exposed will not merely be the competition of a rival institution, but the competition of an institution "with all its contemplated resources and privileges and prestige as a State bank." We desire, as we stated in our previous despatch, to avoid any unnecessary disturbance of existing business, and we regret that the advocacy of powers to borrow in London has aroused such deep apprehension. But we cannot but consider that this apprehension is much exaggerated. We can see no reason why a bank of India should not make its own remittances, the restrictions which we have proposed and which are correctly<sup>\*</sup> stated in the fourth paragraph of the memorial, will prevent it from doing more. We could have wished that this contention of the banks, which appears to us to be untenable, had been supported by some clearer indication of the actual manner in which the competition they deprecate may be expected to prove unfair and injurious. The demand that the Presidency Banks should have power to borrow in London is supported by practically every merchant in India, and will be still more vigorously supported if your Lordship should negative the proposals which have been made in several quarters for the free use of the Currency Reserve for loans.

6 We are at some loss to understand the further allegation of the Exchange Banks that they will not only be exposed to competition but to the competition of a State institution, or to follow the argument that the proposed legislation "will tend to an absolute reversal of the policy of 1876 when the Government retired as much as possible from all connection with the affairs of the Presidency Banks, except so far as to keep a portion of their balances with such banks." The term State Bank can of course be used in several gradations of meaning, and seems to be so used in this memorial. The Memorialists, indeed, appear to argue that any bank, the custodian of the public balances, must necessarily be a State Bank. If this is their real meaning, it would be fair to conclude that they consider the Bank of England is a State Bank, which is notoriously not the case in the accepted meaning of ordinary language. But we imagine that they would not admit this conclusion, and we doubt whether they would deny that Government, without any question of constituting a State Bank, is entitled to use a bank, in a department separated from the Banking Department proper, as its agent for the management of its note issue. This is the relation between Her Majesty's Government and the Bank of England, and we propose to reproduce this arrangement in India with the modification that a link may be established between the proposed banking and issue departments, if your Lordship assents to the adoption in any form of the German system of authorising the issue of uncovered notes on payment of a tax. But this is a point not touched on by the Memorialists, and the arguments that they direct against State competition seem hardly germane to the discussion of a project in which State intervention is restricted within such well-defined and well-recognised limits.

<sup>\*</sup> Except for the use of the word "India" instead of "England" in the last line but one of the paragraph.

7 We notice, moreover, that the Memorialists have no objection on principle to our allowing resort to the currency reserve in times of financial stress, indeed they suggest this expedient as an alternative to the augmentation of banking capital. In our despatch of the 18th January we have explained our objections to this proposal, and we should not further discuss it here, but that the Memorialists have sought to justify it by a reference to the occurrences connected with the failure of the old Bank of Bombay in 1868. It will be well for us to recall the circumstances which render this precedent inapplicable. In June 1865 a severe commercial crisis occurred in Bombay, and there was a run on the bank, which was already crippled by reckless management. The Governor of Bombay telegraphed that unless he could give an assurance that the Government was prepared to advance the bank Rs 150 lakhs from the currency reserve there would be a great danger of the bank suspending payment, a result which he declared might involve "disaster, financial and political, more extensive than the mere stopping of the bank." The Government of the day authorised him to use his discretion the assurance was given, and the panic allayed, without, as it proved, any actual withdrawal from the currency reserve. The facts were reported by the Local Government to the Secretary of State, who strictly prohibited the use of the reserve for this purpose on future occasions (Despatch No 71, dated 8th September 1865). In February 1867 another panic occurred, and the Local Government gave notice that the Government were prepared "to support the bank with all their available resources." On this occasion the currency reserve was not mentioned, and was probably not intended. The reference in the memorial to these incidents would have been more apposite if they had been used to illustrate the evils of State connection with banking institutions. We, at any rate, can find in them no justification for any departure from the rule of maintaining the currency reserve for its proper function of guaranteeing the convertibility of the paper currency.

8 In the meantime we are informing the Exchange Banks that their memorial is being transmitted to your Lordship

We have the honour to be, &c,

(Signed) CURZON OF KEDLESTON  
 " E. H. H. COLLEN  
 " A. C. TREVOR  
 " C. E. DAWKINS  
 " T. RALEIGH  
 " DENZIL IBBETSON

To His Excellency the Right Honourable GEORGE NATHANIEL BARON CURZON  
 of Kedleston, G M S I, G M I E, in the County of Derby in the  
 Peerage of Ireland, Viceroy and Governor-General of India

The Humble Memorial of the Exchange Banks of Calcutta

That your Memorialists are bankers, and that most of them have for the last forty years and upwards been intimately associated with the trade and commerce of India, and have practically during that period financed the whole export and import trade of the country, and have thus enabled that trade (which is still being financed by your Memorialists) to meet the fluctuations of exchange and to develop it to the extent to which it has developed of recent years. Your Memorialists have, for that purpose, utilised their capital, which amounts to about six millions sterling or thereabouts.

2 That in doing this they have met a great want of the trade aforesaid, the Presidency Banks since 1876 having been prohibited from financing such trade and having in consequence devoted themselves entirely to financing the internal commerce of the country.

3. That your Memorialists have under these circumstances noticed with considerable apprehension the recent suggestion that the new bank proposed to be founded should be allowed to borrow in London, and enter into sterling

operations in connection therewith—a request which was refused to the existing Presidency Banks in the year 1878—and they have observed that the Financial Member in his speech in Council on 5th January 1900 expressed an opinion that he saw no reason why, subject to the restrictions suggested by the Presidency Banks themselves in 1877 (on the occasion of the above-mentioned request being preferred), such course should not be followed, and that he thought that the Exchange Banks need have no apprehension on that account, as these restrictions would sufficiently provide against the new bank interfering with them

4 That the restrictions so suggested by the letter of the Presidency Banks were that the banks should have power—

- (1) To borrow money, either in India or England, by pledge of assets or otherwise, on such terms as to repayment of interest, &c, as the said bank may from time to time arrange,
- (2) To make remittances to England from time to time by Bills of Exchange or otherwise as may seem expedient in payment of the price of stock or other authorised investments purchased or acquired for the banks in India, and also in repayment of loans arranged for there

5 That your Memorialists believe that these restrictions are not stringent enough to prevent the proposed Presidency Banks, or the new bank proposed to be constructed by their amalgamation, from entering the Exchange markets and competing with your Memorialists in the purchase of bills on London—a business which, as they have pointed out, has been carried on by them for forty years and upwards with great advantage to the commerce of India—and they trust that such competition will not receive either the approbation or the active assistance of the Government of India, as it will have in all probability the effect of seriously interfering with your Memorialists in their present sphere of operations, but while they recognise that it was not the intention of Government or the Financial Member that the proposed amalgamated bank should so compete or deal in exchange, they believe that this result will take place unless more stringent restrictions are imposed

6 That they would therefore venture respectfully to submit to your Excellency their views on the subject of the present scheme of amalgamation of the Presidency Banks and the proposal to afford access to the London market, and the restrictions they propose in the hope that they will receive at your Excellency's hands that sympathetic consideration which your Excellency has ever evinced for the interests and prosperity of British capital in India

7 That your Memorialists also believe that if the state of affairs provided for by Act II of 1898 had been allowed to continue and to fully develop, there would be no necessity for any large increase of the capital of the Presidency Banks, and that with a stable rupee all the money wanted for the normal requirements of Indian trade and development could and would be found by your Memorialists and sterling capitalists engaged or interested in the commerce of India, especially if (as indeed has been suggested by the Bank of Bengal itself as well as by the Chamber of Commerce) in addition to those resources resort could be had to the paper currency reserve as has been done in times of financial stress, such as the Bombay Bank crisis of 1868, and in this connection your Memorialists would in passing observe that the very recent stringency in the money market, which was so acutely felt at Bombay in the middle of January 1900, was not due to the inability or unwillingness of Exchange Banks to meet the trade requirements, but was directly attributable to the action of the Secretary of State in suddenly cancelling the then subsisting notification issued under Act II of 1898 providing for the payment of rupees in India by telegraph against the deposit of sovereigns in London at the stable rate of 1*s.* 4  $\frac{1}{2}$  *d.*, such action being wholly unexpected, having regard to the objects and reasons for the extension of Act II for two years by Act VIII of 1898, which are printed at page 279, Part V of the "Gazette of India," July 9th, 1898

8 That as regards the introduction of English capital into India, your Memorialists beg to draw your Excellency's attention to the observations

made in an article in the "Money Market Review" of 30th December 1899, with which as a whole they agree. A copy of this article is appended to this memorial.

9 That to the mere amalgamation of the Presidency Banks your Memorialists, of course, can have no objection but they would at the same time point out (1) that the proposed legislation in its entirety will tend to an absolute reversal of the policy of 1876, when the Government retired as much as possible from all connection with the affairs of the Presidency Banks, except so far as to keep portion of their balances with such banks, (2) that such legislation will invade the sound existing restriction, under section 37 (e) of the Presidency Banks Act, 1876, as amended by Act V of 1879, whereby such banks are prohibited in effect from advancing to or on the personal security or credit of firms or individuals not resident or represented in India, and (3) that the new bank will be to all intents and purposes a State Bank with privileges as to its note issue.

10 That, further, with regard to the proposal to allow the Presidency Bank or the new bank to borrow in London, and to enter upon all sterling operations incident thereto, your Memorialists would also beg to point out and to lay great stress on the fact that by the proposed new departure the connection between the Government and the Presidency Banks would be drawn closer, and that the Presidency Banks, or their amalgamated representative, having to all intents and purposes become a State Bank, all the well known objections to the State competing with its subjects in matters relating to private enterprise would in that case become applicable.

11 That the intervention of the State in matters of trade has always been deprecated in England and in countries subject to British influence. State interference in such matters (the limits of which are pretty well known) has been generally confined to the control of railway and other large monopolies, and to the acquisition of postal and telegraph communications, and such State intervention or interference is based generally on the principle of protecting the less moneyed and dependent class of the community, and all schemes, except with that end, has been looked on with great suspicion and circumscribed and restricted in every way. The case of State railways in India being a solitary exception to this policy, based merely on the reluctance of private enterprise to come forward in the particular matter.

12 That on the acquisition by the British Government of the telegraphs in 1867 the rights of the railways—the companies with whose rights the proposal of the Home Government conflicted—were recognised to the utmost, and their interests were also carefully protected by their representatives in Parliament—a course which is always open in England, where all interests are in some way represented in the Legislature, but which protection is not always open to interests in India when menaced by legislation.

13 That similar precautions were taken by the Government in 1886 on the starting of the parcel post to protect the carrying interests and to disarm opposition to that project, and there are numerous other instances of this nature, and in the matter of banking your Memorialists may point out that the extent of the operations of the British Postal Savings Bank is at the present moment causing considerable apprehension, and every effort is being made to prevent any suspicion of competition with the banking interests of that country, and such competition is deprecated and discountenanced in every possible way.

14 That your Memorialists humbly submit it is therefore incumbent on the Government of India to investigate this matter with more than ordinary care, considering the magnitude of the interests involved, and the results of such competition, when once entered into, and in this connection it is not overstating the case to say that if the new bank, with all its contemplated resources and privileges and prestige as a State Bank, were allowed to enter into active rivalry with the existing Exchange Banks, the latter would practically be swept out of the field and effaced, regard being also had to the magnitude of exchange operations in which the new bank would, under its proposed constitution and powers, be inevitably engaged, unless it were altogether debarred from any exchange operations.

15 That in the matter of State Banks your Memorialists quite admit that such banks are practically a necessary consequence where large amounts are raised by taxation, and that the Government must keep their balances somewhere, and that the custody of such balances must in the nature of things benefit one particular bank above others, but they believe that the tendency of modern times is gradually to withdraw as much as possible from such preference and influence, and they suggest that such facilities should in no cases be extended more than is absolutely necessary, and certainly not where they would lead to rivalry with old-established institutions

16 That in the case of India and elsewhere such privileged banks are able to employ the Government balances as mercantile loans greatly to the public benefit, but it is a remarkable feature of the present proposal that the Bank of Bengal, in their letter to the Government on 2nd December 1898 (para 17), suggest that if the Paper Currency Reserves were placed at their disposal, rules could easily be framed that would guard against use by the Exchange Banks of such reserves—a suggestion which, if pursued, would invidiously oust the Exchange Banks from privileges which would be open to the rest of the mercantile community

17 That with such proposals of the Bank of Bengal before them, the Exchange Banks feel the necessity for re-asserting “that the discrimination by the State between different classes of occupations and the favouring of one at the expense of the others, whether that one be farming or banking printing or railroading, is not” (to adopt the words of a great American publicist) “legitimate legislation, and is an invasion of the equality of right and privilege which is a maxim of State Government, their occupation is honourable, it is beneficial to the public, and it deserves encouragement. It is not the business of the State to make discriminations in favour of one class against another, or in favour of one employment against another. The State can have no favourites. Its business is to protect the industry of all and give all the benefits of equal laws”

18 These propositions have been in effect recognised by the Government of India in relation to railway matters. In 1871 the Indian Government enunciated the proposition that it was evident that “the laws of the land relating to railways should be the same to whomsoever those railways belonged, and the law which governed companies’ lines must also govern the railways of the State.” This was acted on recently in the year 1896 in the matter of the repeal of the 81st section of the Railways Act of 1890, and in other cases of competition between State and other railways or carriers

19 That your Memorialists feel that these principles are applicable to the situation created by the present proposals, and that your Excellency will hesitate to allow the competition of the State Bank in the exchange market after forty years interval, during which your Memorialists have utilised their capital in India and have built up their business, which after all (despite inevitable risks incurred) is not one in which large profits have or can be made, and that if your Excellency permits the concession asked for by the Presidency Banks, namely, access to the London market, your Excellency will not grant it except on such terms as will preclude what is practically State competition with existing enterprises

20 Your Memorialists beg also to draw your Excellency’s attention to a paragraph in the statement of Mr. A de Rothschild before the Currency Commission\* (at p 186 of the report), in which he proposes the establishment of a State Bank of India, and which paragraph is as follows

“The Bank should not conduct any exchange transactions, but should confine itself (like the existing Presidency Banks) exclusively to internal operations, and it would also, when necessary, make advances to the Indian Government against deficiency bills, which is frequently the case with the Bank of England”

21 That your Memorialists would on this point suggest that, as the amalgamated banks are, or the new bank is, to have a sterling capital, it

should be made a condition of such permission that all their sterling transactions should be confined to the shipment and re-shipment of gold, and that the Presidency Banks or new bank should be prohibited from selling or buying sterling bills or selling or buying telegraphic transfers save, of course, through existing channels, namely, the Exchange Banks

22 Your Memorialists have set out their views and apprehensions at some length on the matter which is of supreme importance as well to the country at large as to you Memorialists, but they quite appreciate that the Financial Member of your Excellency's Council evidently shares Mr A de Rothschild's view that the proposed bank should not deal in exchange in competition with you Memorialists, but what they fear is that unless the restrictions proposed by them, or some others equally stringent be imposed, the result of the access to the London market will incidentally but inevitably be an amount of dealing in exchange which will dislocate your Memorialists' operations and produce serious, if not overwhelming, competition without any benefit to the country, but the reverse, and that it will, as pointed out in the article in the "Money Market Review" hereto appended, check rather than stimulate the flow of loanable sterling capital from England to India

23 Your Memorialists appeal to your Excellency in this matter with confidence in your Excellency's anxiety to stimulate the introduction of sterling capital into India by private enterprise and to protect it when introduced, and they leave their case in your Excellency's hands in full confidence that it will at least be dealt with as considerately and fairly as if their interests were represented in your Excellency's Council

Your Memorialists pray that the foregoing representations may be taken into careful consideration before any legislation be initiated on the subject-matter of the proposals to amalgamate the existing Presidency Banks or to establish a new bank on a sterling basis, and that any Bill that may be framed and passed for the purpose of giving legislative effect to such proposals may contain effectively stringent provisions preventing the amalgamated banks or the new bank from competing with the Exchange Banks as and in manner indicated in this memorial

(Signed )

For the National Bank of India, Ltd ,

W TOUCH, Manager

For the Delhi and London Bank, Ltd ,

GEO WARD, Manager

For the Mercantile Bank of India, Ltd ,

H G FIDLER, Manager, Calcutta.

For the Comptoir National D'Escompte de Paris,

E. FREYVOGEL, Manager

For the Chartered Bank of India, Australia and China,

J B LEE, Agent

For the Agra Bank, Limited,

F G MAYNE, Manager, Calcutta

For the Hongkong and Shanghai Banking Corporation,

P. E CAMERON, Agent

Deutsch Asiatische Bank,

JAUP p p GUTSCHKE

Dated Calcutta, the third day of February 1900.

## APPENDIX A

## PROPOSED INDIAN STATE BANK

It was known at the time the Government of India were preparing to place the currency of our great Eastern dependency on a gold basis, that they entertained the idea of supplementing and fortifying that scheme by the establishment of a State Bank. A good deal of attention was devoted to this subject during the sittings of the Currency Committee, and more recently the Government were known to have been sounding Indian merchants and others for the purpose of ascertaining what degree of support a plan of the kind was likely to receive. A short time ago a communication on the subject was addressed to the Bengal Chamber of Commerce, and the latter indicated by their reply that they are wholly in favour of the founding of a State Bank. In their view, it is possible that if the proposed bank were entrusted, like the Bank of England and the banks of other European countries, with the management of the paper currency, subject, of course, to all the regulations which might be considered essential for the protection of the public, the note issue would expand to the great convenience of commerce. They are of opinion that the banking system in India will never be entirely satisfactory until the central banking institutions, in other words, the Presidency Banks, are in close touch with London, the money market of the world. Consequently, they trust that the efforts to improve the banking facilities in India will result in the central banking institution and other banks being placed in a position to give important assistance to the promotion of railways and other works of public importance and to finance at moderate rates, and on terms as free as possible from heavy fluctuations, operations of industrial and other trading concerns, thus placing the country in a more advantageous position in the future than in the past to compete with the great commercial nations of the world.

From all this the inference to be drawn is, firstly, that the existing banking system is regarded as inadequate, secondly, that if it were extended, more abundant and cheaper capital would be forthcoming, and, thirdly, that to accomplish this desirable purpose the intervention of a sort of State monopoly of at least one branch of banking is necessary. To all of these conclusions we are strongly inclined to demur. As regards the statement that the note issue would expand greatly to the convenience of the public, the Government have on all occasions since the closing of the mints replied to the opponents of that measure, when alleging that it led to a restriction of the currency, excessive rates of interest, and the disorganisation of trade, that there was no such restriction.

They have consistently maintained that there was sufficient currency for all purposes. Now, however, when it is a question of setting up a State Bank, the great argument in its favour is that the currency requires some new kind of machinery to facilitate its expansion. At the present time the Government alone issue notes through the Treasury, the total being between twenty-seven and thirty crores of rupees, against cash and Government securities. It is proposed to transfer this right to the new bank which is to be constituted by the amalgamation of the three Presidency Banks, which would, therefore, reap the profit, about twenty-five lakhs of rupees per annum, which the Treasury now obtains on its note issues. That, of course, would benefit the bank to the disadvantage of the Indian taxpayers. It is also proposed that the combined capitals of the Presidency Banks in their amalgamated shape should be increased by about eight millions sterling. It is not quite clear where this money is to come from, but we can quite appreciate the ardent desire to see it imported into the country in order to confer more solidity on the currency reform.

We wholly fail to see how this scheme will stimulate industrial, commercial, and railway enterprises, the development of which must be dependent on foreign capital. The suggestion that it will do so obviously assumes that such development has been checked for want of adequate banking facilities, but we doubt if any close and intelligent student of the economic and financial history of India during the last 30 years or so will

be able to accept such a view. What we do know, is that capital not only ceased to flow to India in late years, but was extensively withdrawn, not for want of such facilities, but owing to the depreciation of the currency and the violent fluctuations in the exchange. So long as the exchange remained stable money flowed into India freely enough, and we do not doubt that the same will occur again when people in this country become convinced that the era of such fluctuations has finally passed away. The sense of security imparted by such a conviction will not require to be supplemented and strengthened by the establishment of a State Bank which is to cheapen capital. Indeed by bringing about such cheapness, to an undue extent that is, one of the main forces for attracting capital to India will be greatly enfeebled. Money goes out to the East because it finds more remunerative employment there than it does at home, and if the flow is to be utilised, in co-operation with the State Bank, to force down the rates, it will quickly be arrested.

What has, for some years past, been wanted in India is, as already mentioned, a steady exchange, not a new bank run on Government lines, with all their peculiar pettifogging restrictions and redtapeism. There is no reason to believe that a State Bank formed out of the materials furnished by the Presidency Banks would be engaged in a different or less circumscribed class of business than that now carried on by them. The great mass of the Indian trade would still have to be financed by the Exchange and other banks which are in closer touch with it than the Presidency institutions ever have been or are likely to be. In his evidence before the Indian Currency Committee, Lord Rothschild, in referring to this subject, said that "a Government Bank would know that they were under the necessity of redeeming their notes in gold or silver, and they would keep the money market easy. In fact, the bank would never have allowed the stringency in the money market to arise, as it did the other day in India (the rate was then about 13 per cent) because they thought they could not cover their notes." In the then situation of affairs the bank would have had no sort of power to prevent the stringency. To suppose it could do so is to assume that it would be able to overcome the combined influence of famine, plague, reduced exports, diminished revenue payments into the Treasury, and the locking up of cash by the Government. So far as rates for money were concerned they afforded every inducement so send out capital from this side for employment on remunerative terms, whereby the stringency would have been relieved in a normal manner, but it did not go out freely, for the simple reason that there was a widespread distrust of the future movements in the exchange. Indeed, look at the subject in whatever way we may, we always come round to this point. It is bound to be the prime factor which will determine the ebb and flow of capital between India and the home market. A State Bank can do nothing to help it. State Banks never have done anything in this direction. The development of national enterprises is a matter dependent on private initiative, banking and other. If we had to wait for the Bank of England to help the building of our railways, the opening of our mines, and the setting up and running of our ironworks and cotton mills, &c., our industrial position would to-day be vastly different from what it is. The capital that may be wanted in India will find its way there, as it has done heretofore when the times and general conditions are regarded as propitious by the people who have it to lend. Their ambition to launch out will not be fired by the mere fact that the Presidency Banks are to become one, and their resources enlarged, the carrying on of their business subjected to Government control, and the sole right to issue notes transferred to them.



Dated 6th February 1900

From the Honourable MR G G ARBUTHNOT, Chairman, Chamber of Commerce, Madras, to the Secretary to the Government of India, Finance and Commerce Department

This Chamber has recently had under its consideration the proposal made by the Bank of Bengal that loans should be made available to the Presidency Banks from the Currency Reserve, in times of stringency, when the funds available in the Reserve Treasuries are insufficient to admit of loans being made from that source, and I have the honour to submit the following remarks thereon for the consideration of Government

The proposal is based upon the German system of issuing uncovered notes, but the conditions here appear to the Chamber to be somewhat different from those on the Continent of Europe for, whereas in Germany the notes themselves circulate freely, in India loans made from the Currency Reserve would have to be met for the most part in silver, and it would, therefore, be essential to maintain in the Currency Reserve a sufficiently large proportion of rupees

The Chamber observes from the published returns that on the 15th January 1900 the coin and bullion reserve was made up as follows —

		Rs
In Gold	- - - -	- 9,38,00,000
, Silver	- - - -	- 7,29,00,000
Total		- 16,67,00,000

and it seems doubtful whether Rupee loans could be made available from the Reserve under such circumstances

The Chamber thinks, however, that the question of coming fresh Rupees is a matter which urgently requires the consideration of Government. The recent action of the Secretary of State in curtailing the sale of Telegraphic Transfers on India against gold deposited in London, under Act II of 1898, can be understood only on the assumption that it was necessary owing to the insufficient supply of Rupees in the Reserves on this side, and there have been other indications during the past few months pointing to a deficiency in the supply

The Honourable Mr Dawkins, in his speech at the meeting of the Viceregal Legislative Council on the 5th ultimo, objected to the grant of loans to the Presidency Banks from the Currency Reserve, and expressed the opinion that if the proportion of coin to securities in the Reserve is large enough to allow of loans being made then that proportion is unnecessarily large, and securities should be substituted for superfluous coin, so that the general tax-payer, and not any particular section of the tax-payers, such as the banks, should benefit thereby

The Chamber thinks that such loans would be made more in the interests of the trade of the country generally (which, it submits, is identical with that of the tax-payer) than for the benefit of the Banks, who would pay interest at the market rate for any accommodation received in this way, and moreover, such interest would be applied for the benefit of the general tax-payer

The Chamber, therefore, is of opinion that this additional channel for relieving monetary pressure should be made available, but it is strengthened in its previously expressed conviction that the ultimate resort for monetary relief must be the London Money Market, and it takes this opportunity of again urging upon Government the necessity for an early amendment of the Presidency Banks Act to accomplish this much-needed reform

In conclusion, the Chamber would remark that, in its opinion, the question of giving the Presidency Banks access to London is one which should be considered on its own merits, apart from the larger scheme for amalgamation of the banks, which it understands is now receiving the

consideration of Government. It is of the utmost importance to the trade of India that it should be brought into touch with the London Money Market, and this can be accomplished as effectively by means of the existing Banks as through the medium of one united Bank.

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No 769, dated 13th February 1900.

From The Honourable Mr J W P MUIR-MACKENZIE, ICS, Secretary to the Government of Bombay, Financial Department, to the SECRETARY to the Government of India, Finance and Commerce Department

I am directed to reply to Mr Assistant Secretary Heseltine's letter, No 5124-A, of the 10th November last, in which the Government of Bombay are requested to express their views regarding the proposed relaxation of certain restrictions upon the business of the Presidency Banks.

I am to say that this Government have consulted the Board of Directors of the Bank of Bombay, the Accountant-General at this Presidency and several other officers. The reply of the Board of Directors was forwarded to you with letter from this Government, No 432 of the 23rd ultimo, and I am now to forward also copy of the report of the Accountant-General.

2 The questions involved in the proposal under discussion are matters of grave difficulty and complexity, and have received from His Excellency the Governor in Council the earnest consideration which issues of such importance demand. As at present advised, His Excellency in Council finds himself to a great extent in agreement with the attitude adopted by the Honourable Mr Dawkins in his speech in the Meeting of the Council of the Governor General of India on the 5th ultimo (*see* page 394).

3 There are two points on which opinion is unanimous, namely, (1) that the severe fluctuations in the rate of discount to which the trade is subjected are due to an insufficiency of loanable capital in the busy season, and (2) that the deficiency can be most satisfactorily met by granting to some bank or banks access to the London market. These views are fully shared by the members of this Government, who, moreover, agree as at present advised in thinking that the most satisfactory method of providing such access would be through the agency of a Central Banking Institution constituted by amalgamation of the three Presidency Banks. On this question, however, His Excellency in Council has not been requested to express an opinion and in default of information on the various points enumerated in paragraph 4 of the letter dated December 20th, 1899, from the Chamber of Commerce of Bombay, is not in a position to form a definite judgment. The proposal is, however, undoubtedly attractive, and provided the confidence of the mercantile community can be secured, merits the most assiduous elaboration. If the head office of such a bank and its board were in London, and control were there exercised over the operations of what would then be the three Indian Branches, the fears now entertained that the interests of one Presidency might be sacrificed to those of another would probably be dispelled.

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No. 2265-R, dated 16th December 1899.

From the ACCOUNTANT-GENERAL, Bombay, to the SECRETARY to the  
Government of Bombay, Financial Department

With reference to Government Resolution, Financial Department, No 5598, dated 23rd November 1899, forwarding for my opinion a reference from the Government of India, Financial Department, on the subject of relaxing certain restrictions upon the powers of the Presidency Banks with special reference to the existing capital of the banks, and explaining (in enclosures) the attitude which the Government of India are inclined to adopt, I have the honour to offer the following remarks

2 The question of relaxing the restrictions upon the powers of the banks is so intimately connected with that of enlarging their capital that the former question cannot, I think, be conveniently discussed independently of the latter. The extent to which the banks are in the busy seasons dependent upon the Government balances has been pointed out by the Honourable Mr Dawkins in his speech before the Viceroy's Council on the 1st September last, and His Excellency the Viceroy has indicated in his speech on the same occasion that it is not the intention to provide a field for the employment of Government balances by enlarging the sphere of the banks' operations

That little room exists for the extended employment of the present resources of the Presidency Banks at all events in the busy season seems to me sufficiently indicated by the high rates of discount which usually prevail in the cold weather months, and the prevailing rates of discount then and indeed for a large portion of the year are also in my opinion such as to raise doubts as to the sufficiency of the Banks' capitals to meet the existing requirements of trade. I am aware that it has been and is urged in some quarters that the abnormal stringency which characterised the busy season of certain recent years was chiefly a result of the currency policy of Government, and that a marked diminution of that stringency has followed the introduction of the reform enacted in the Indian Paper Currency Act, 1898, but however much it may be admitted that the stringency of the market may have been added to by the policy adopted by Government for fixing the value of the rupee it can hardly be denied that, quite apart from that policy and long before that policy had effect, the rates of discount prevailing in this country in the busy season have been over and over again unduly high and compared with the rates prevalent in the slack season have shown fluctuations which, I would suggest, could hardly occur in a thoroughly healthy market. I have only as an instance of this to refer to the beginning of 1889 when the Bank rate in Bombay stood at 11 per cent and the bank was refusing advances upon the security of Government paper. This is not an isolated instance, *e g*, the Bank rate varied in 1890 from 3 to 12 per cent and in 1894 from 3 to 10 per cent, nor have the Presidency Bank and the Chamber of Commerce of this city failed on various occasions to urge upon Government the policy of utilising its own balances by employing them in the assistance of trade. These circumstances recurring as they do from time to time seem to me to indicate a paucity of capital which an increase in the capital of the existing Presidency Banks would presumably go some way to supply, and were that capital judiciously increased to an extent commensurate with what I would call the evils which it would be desirable to remedy, one of the chief objections to withdrawing existing restrictions over the employment of their capital would, if it did not altogether disappear, be largely minimised. Perhaps even then some restrictions will be necessary, but I see no reason why the powers of the Banks in respect of business transactions should not be greatly enlarged and particularly in the direction of an extension of the classes of securities upon which loans and advances are admissible, but how far it would be possible to go in this direction, if existing arrangements are continued, is a question, upon which I do not feel competent at present to offer an opinion without further data regarding the securities which the banks would propose to deal with. In making the above remarks I have not lost sight of the fact that it may be argued that having, as the existing Banks do have, the power to increase their capital, the very fact that they do not

take that step is sufficient proof that an enlarged capital is not called for by the requirements of trade, but, without in any way reflecting on the devotion to the public interests of the Presidency Banks, which has, I believe, always been manifest, it is, I suggest, only fair to recall the fact that they are not constituted solely for the benefit of trade but are dividend earning institutions, and the interests of their shareholders must necessarily be carefully safeguarded. Looked at in another light I may further question whether other considerations do not appear to point to the same conclusion that the capital of the existing Central Institutions is capable of extension. The removal of the uncertainty regarding the value of the currency will, it is rightly regarded, result in an increased rush of capital to this country, increased facilities will thereby be given to trade, and it seems, I would suggest, a reasonable view that, to meet the requirement of that increased trade, the market should be able to look for increased resources to the Central Institutions.

Whether the increase in resources and consequent usefulness can best be met by an amalgamation of the existing banks into one Central Bank or by going still further and placing the latter bank upon a sterling basis, are questions of great difficulty upon which I express an opinion with great diffidence, but I incline to the view that one Central Institution for the whole of India with a sterling capital and having the management of the issue of Paper Currency would be in many respects exceedingly advantageous and a considerable improvement on existing arrangements, while, assuming that it proves under present conditions possible to establish such an institution, I am unable to see any weighty objections to its creation. The two arguments which, I conceive, may be urged against the adoption of such a proposal are (a) that it is unnecessary, and (b) that the difficulties in the way of its establishment are so great as to render it impracticable. With regard to (a), I have urged above the reasons which seem to point to the necessity of some change, and as to the advantage which a Bank on a sterling basis would afford, I would refer to the evidence given by Mr A de Rothschild before the Indian Currency Committee and state that, while I consider that there can be no real doubt as to the maintenance of the value of the rupee under the present system, and I doubt whether the introduction of a bank of this nature will add largely to the resources available for such a purpose (see also Lord Rothschild's remarks on this point before the Currency Committee No 7683), I think that in practice the bank would have a great advantage over Government in working for the effective maintenance of a gold currency through its more intimate knowledge of the immediate requirements of commerce, and especially through the confidence that its existence and operations would eventually engender in the mercantile world. A further advantage which such a bank would possess would be the possession of capital which could be utilised in England as well as in India. With regard to (b), the difficulties to be expected in the establishment of such a bank. These are, I am of opinion, great, perhaps much greater than has been apprehended. I will not say that I think they are insuperable, but at all events they can only be threshed out in detail in immediate conference with the banking and mercantile community, and I submit that the real point for discussion in the first place is the desirability of the changes suggested. If that be admitted, it will then be time to consider the possibility of overcoming initial difficulties. I would add, in conclusion, that I am aware that in answer to the arguments in the earlier portion of this letter it may be further urged that there has been no demand on the part of those who might be deemed the most nearly interested, namely, the mercantile public, for increased banking facilities, but I think that this is largely due to the apprehensions which any large change of this kind always arouses, the tendency being, I think, to accept an existing system in preference to a large and important change the benefits of which may not be very clearly apprehended. Mr de Rothschild has also alluded in his evidence referred to above to the opposition which such a scheme might arouse, and I need refer no further to that point except to express my concurrence with what he said.

No 146, dated 15th February 1900

From the CHIEF SECRETARY to the Government, Financial Department,  
Madras, to the SECRETARY to the Government of India, Finance  
and Commerce Department

I am directed to reply to your letter No 5124-A, dated the 10th November 1899, inviting the views of this Government on the proposal to relax the restrictions on the business of the Presidency Banks which are imposed by Sections 36 and 37 of the Presidency Banks Act, 1876

2 It is observed that the Government of India holds that the present restrictions imposed on the banks' operations are necessary, principally in order to secure the safety of the Government balances entrusted to the banks, that Presidency Banks depend to a quite exceptional degree for their cash balances on the Government account, nearly 80 to 90 *per cent* of these balances being in the busy season supplied from this source, and that this fact, added to the fluctuations in the rate of discount, leads to the question as to how far the Presidency Banks have sufficient capital to allow of the absorption of the resources they command in enterprises, the securities of which might not be easily realisable

3 In the letter addressed to the Government of India on the 13th November last by the Bank of Madras, which appears to have anticipated the present reference, it is contended that the views of the Government of India in regard to the amount of the Government balance with the bank relatively to other deposits and to the cash balance are founded on a misapprehension, and that, though these remarks might apply to the period prior to the establishment of Reserve Treasuries, they are inapplicable now; since with the largely increased resources of the Madras Bank the Government account now forms only about 10 *per cent* of the working capital. The bank accordingly contends that it is not dependent in an undue degree upon the Government balance for its loanable capital and adduces figures to support this contention. If the arguments of the bank are to be accepted, it would appear that the pecuniary interest of Government in the Presidency Banks no longer exists, at all events in Madras, to the same extent as formerly, and, if so, the chief obstacle to relaxing the restrictions originally imposed on the bank's operations has, in some measure, been removed. I am to observe that this aspect of the matter has been commented on by the Honourable Mr Dawkins at the meeting of the Legislative Council on the 6th January

9 The Bank of Madras in its letter to Government of India has made the following further suggestions —

- (1) that the Bank's power of borrowing should be extended by amending Section 36 (*mm*) of Act XI of 1876, so as to allow of borrowing in the United Kingdom,
- (2) that Ceylon Government securities should be added to the list of those in which the Bank is authorised to deal,
- (3) that Section 37 (*a*) of the Banks Act should be so amended as to extend from three to six months the period for which loans may be made,
- (4) that Section 37 (*f*) should be amended so that the limit for overdrafts without security may be raised from Rs 2,000 to Rs 5,000

10 With respect to the first of the suggestions, I am to say that it has been dealt with by the Honourable Mr Dawkins in his speech already referred to in which he stated that the fusion of the three Presidency Banks and an increase of their capital are conditions inevitably precedent to the grant of access to the London market. In the absence of expert banking opinion which is not here available, this Government, however, concurs with the Accountant-General—a copy of whose report is herewith forwarded—in questioning the advisability of proposals (2) and (4), and sees no reason for supporting suggestion (3), which would involve a loss of revenue

No Res -Conf 18, dated 7th December 1899.

From the ACCOUNTANT-GENERAL, Madras, to the CHIEF SECRETARY to the Government of Madras, Financial Department

I have the honour to acknowledge receipt of your endorsement No 3019, dated 21st ultimo, forwarding to me for remarks Government of India, Finance and Commerce Department, No 5124-A, dated 10th November 1899, regarding proposals to relax the restrictions on the business of the Presidency Banks which are imposed by Sections 36 and 37 of the Presidency Banks Act of 1876

2 In connection with this question the Government have received copies of a letter addressed by the Bank of Madras to the Government of India on the subject. The letter expresses the view of the Bank of Madras and brings to notice the changes the bank considers desirable in its own interest. It will be most appropriate therefore to discuss the points brought forward in it.

3 The Directors first advocate that the bank's power of borrowing should be extended to allow of their borrowing in the United Kingdom. When exchange was altogether uncertain, it was manifestly undesirable that such an element of speculation should be brought into any of the transactions with which the Presidency Banks had to deal, and the prohibition to borrow in England was essential. Now, however, that exchange is stable this objection no longer exists, and I see no reason why the banks should not be allowed to borrow in England. In fact, it seems to me most desirable that they should be allowed to do so. There can be no question that their business operations are very much restricted by the prohibition, and that a larger command of funds would be of great advantage to the trade and commerce of the country, and materially strengthen the position of the banks and enable them more to assume that position which some consider can only be taken up by a "Bank of India". Were the Presidency Banks allowed to borrow in England, the scarcity of monetary accommodation in the busy season and the consequent high rate of interest of which we have known so much the last few seasons would not occur.

It would also solve the question of the banks making use of the surplus funds of the Government during periods of stringency which must no doubt be allowed as things are at present, but which it would be much better should not be necessary.

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6 The suggestion of the bank that the period for which loans may be made should be raised from three to six months seems reasonable, but I do not think the limit of over-drafts without security should be raised.

7 I am not aware of the conditions on which the securities of the Ceylon Government are issued, but it does not seem desirable that a Presidency Bank in India should be allowed to deal in the securities of Governments beyond Indian limits.

Despatch from the SECRETARY OF STATE FOR INDIA to the GOVERNMENT OF INDIA, No 41, dated 22nd March 1900

My LORD,

With your Excellency's letter, dated the 22nd of February, No 56, you have transmitted for my consideration a memorial by the Exchange Banks of Calcutta, on the subject of the proposals connected with the suggested amalgamation of the three Presidency Banks into one Bank with certain special privileges

2 As I have, in my despatch dated this day, No 40, referred the question again to your Government, it is unnecessary for me at present to discuss the effect of the proposal on the Exchange Banks

3 I request, however, that they may be assured that their representations will receive due consideration before any decision is passed by Her Majesty's Government

I have, &c,  
(Signed) GEORGE HAMILTON

No 1782-F, dated 8th March, 1900

From E N BAKER, Esq, Secretary to the Government of Bengal, to the SECRETARY to the Government of India, Finance and Commerce Department

I am directed to acknowledge the receipt of your letter No 5124-A, dated the 10th November 1899, asking to be favoured with the views of the Government of Bengal on a proposal which has been made to relax the restrictions on the business of the Presidency Banks which are imposed by Sections 36 and 37 of the Presidency Banks Act of 1876

2 The questions dealt with in the papers which accompany your letter under reply relate to a branch of administration which has been highly specialised, and lie so far outside the ordinary sphere of the Local Government that the Lieutenant-Governor feels some diffidence in offering an opinion regarding them. Moreover, since the receipt of the reference from the Government of India, the matter has been carried a good deal further by the statement made in Council, on the 5th January 1900, by the Finance Minister in reply to a question put by the Honourable Mr Allan Arthur. For these reasons, the Lieutenant-Governor feels that no useful purpose would be served by attempting to enter on an exhaustive examination of the proposals set forth in the correspondence, and he desires merely to submit some observations on their simpler aspects based on such advice and information as were within his reach

6 The next question considered in the papers received with your letter of the 10th November relates to the proposed amalgamation of the three Presidency Banks, and the increase of their capital. This is a question of much greater difficulty than the first, and requires for its solution more familiarity with the practice of banking administration than the Lieutenant-Governor possesses. So far as amalgamation is concerned, the Lieutenant-Governor accepts the force of the arguments adduced in favour of it in the speeches of the Honourable Mr Dawkins and His Excellency the Viceroy on the 1st September 1899\*. But there are also considerations of no little weight in favour of the opposite view. In the first place, it is doubtful whether India is not too large for a single Central State Bank, the Directors, if drawn from or located in the three Presidency towns, would be too far apart from each other. Secondly, the interests of the various Presidencies are not always identical, and are sometimes at variance with each other. Thirdly, it is against the public interest to create and foster a huge monopoly. A single bank with large resources, and commanding the Government deposits, would have great power over the other banks. Fourthly, banks deal chiefly in credit, and credit is always a matter of local knowledge and experience.

\* See pp 358-61, *supra*

It is doubtful also whether the Central Bank would be in a position to do all that appears likely to be expected of it. The Government of India have of course seen an article in the *Economist* of the 13th January, entitled "The proposed Bank of India," in which it is pointed out that even the Bank of England does not undertake to pay at any branch its notes issued by other branches. Notes issued at one branch are cashed only at that branch and in London, and it is contended with much force that a liability, which the Bank of England cannot undertake and has strongly objected to, could not safely be imposed on the State Bank of India.

For these reasons the Lieutenant-Governor is disposed to doubt whether it is expedient or even safe to amalgamate the Presidency Banks, and there appears to be a growing opinion adverse to the proposal among the mercantile community.

These are not matters in which his own experiences enable him to form and offer any confident opinion, but at least he may say that it seems to him clear that the head-quarters and management of the amalgamated bank should be in India, and not in London.

If the management were located in London, it would necessarily be in less perfect touch with local requirements and less accessible to the representatives of local interests than if it were in India, and it might, moreover, be subjected to influences in which the interests of India were not the sole consideration.

7 As regards the suggestion that the capital of the amalgamated bank should be increased, the Lieutenant-Governor is *prima facie* disposed to doubt whether the necessity for this has been established. The capital of the three Presidency Banks is fixed by Section 10 of the Act. Their aggregate capital now stands at 360 lakhs of rupees, which is only 10 lakhs in excess of the minimum allowed by the law, and they have power under section 12 to raise it to an aggregate of 620 lakhs. The fact that notwithstanding recurring periods of stringency, the banks have never yet exercised this power except to an inconsiderable extent, and have preferred to retain their capital almost at the permissible minimum, raises a presumption that that minimum is not conspicuously inadequate to their needs. Until the maximum allowed by the present law has been worked up to, it seems difficult to believe that a still higher amount could be usefully employed. In any case, if it is thought desirable to provide for some increase, the power should be permissive, and not obligatory.

It should also be borne in mind that in proportion as fixity of sterling exchange is secured—and in this a large measure of success has been achieved—the narrower is the field left for the operations of the Exchange Banks, and it is reasonable to suppose that as time goes on, a larger and larger proportion of their capital will be set free for employment in legitimate banking.

8 There remains only one point in respect of which the Lieutenant-Governor desires to offer any remarks. This relates to the suggestions that have been made for providing some means whereby the Banks' resources may be temporarily increased during periods of stringency. The Honourable Mr Dawkins in his statement in Council on the 5th January pointed out that the German system by which the banks are allowed to issue uncovered notes on payment of a sliding-scale tax would not afford a remedy in this country, where the demand is for hard cash and not for notes. The Lieutenant-Governor ventures to doubt whether too much may not be made of this objection. Whatever the system of note issue may be, whether by Government direct or through the agency of a bank, it must be assumed that at any given moment the note circulation has reached saturation point, *i. e.*, that as large an amount of notes has been absorbed as, in the circumstances of the issue system in force, the country will take up. This is true of Germany and of India alike. Nevertheless it is found in Germany that in seasons of stringency the bank is able to satisfy pressing demands by the issue of notes, which do circulate for a time, and are not immediately presented for encashment. It is difficult to understand why the same result



should not be expected to ensue in this country also though possibly to a less extent. The Lieutenant-Governor is disposed to believe that this course, if not a remedy, would be at least a palliative for monetary stringency

9 It is of course true that this system is scarcely to be distinguished in practice from the granting of loans from the Paper Currency reserve, the objections to which were forcibly set forth by the Finance Minister in the course of his statement

10 Another suggestion has presented itself, which seems to the Lieutenant-Governor to be quite deserving of consideration. It is that the Government should coin rupees up to an amount to be decided upon, and hold them in a special loan reserve, lending them to the banks for short terms on a sliding scale of interest, whose minimum should be fixed with reference to the current bank rate of discount. It does not seem that this arrangement would interfere with the sale of Council Bills or the deposit of gold, and it is probable that the sliding scale could be so adjusted that the interest received would more than cover the interest on the cost of the silver from which the rupees were coined. The precise amount at which the special loan reserve should be fixed and the scale of interest would be matters for consideration

11 To reduce the cost of locking up so many rupees in the special loan reserve, it might be desirable during the slack season to invest the whole or a portion of them in consols or any other first class securities, preferably in sterling. On the approach of the busy season, these should be sold for gold, the proceeds being paid into the Treasury Department of the India Office, and a corresponding number of rupees being transferred to the special loan reserve in India. It is possible that in course of time, if this system proved successful in steadying the bank rate, the special loan reserve might be amalgamated with the Reserve Treasury, the cash in which up to a fixed amount should be treated as reserve, while the excess should be available for special loan purposes in the manner described

It is possible that this arrangement may embody defects which would render it unacceptable, but none such have been brought to the Lieutenant-Governor's notice, and he, therefore, desires to submit it for the consideration of the Government of India

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Dated 14th March 1900.

From A D WARREN, Esq, Secretary, Chamber of Commerce, Rangoon, to the SECRETARY to the Government of India, Finance and Commerce Department

I am directed to acknowledge receipt of your letter No 5123-A, dated 10th November 1899, with relative document, regarding the proposed amendment of the Presidency Banks Act, 1876

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Whether the addition to the resources of the banks should take the form of increased shareholders' capital, or otherwise, my Committee are not in a position to express an opinion.

A suggestion has been made that the Government balances should, in times of stringency, be placed more liberally at the disposal of the Presidency Banks

I am directed to say that if this could be done, it would meet with the approval of the Committee.

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No 40-Finl, dated London, the 22nd March 1900.

From the SECRETARY OF STATE for India to the GOVERNMENT of India.

Your Excellency's letter, dated the 18th January, No 17, has been under my consideration in Council, and the proposals which it contains for placing the banking system in India on a better footing so as to enable the community to have the command, at a time of emergency, of a larger amount of loanable capital, will receive my most careful attention

I have already, in my despatch of the 25th of July 1899, No 140, expressed my sense of the great importance of this subject, and I fully appreciate the desirability of the objects which Your Excellency has in view. Your letter shows that the matter has received from your Government the special consideration which it deserves, and undoubtedly marks an important step towards such measures of reform as may hereafter be adopted

There are circumstances, however, at the present time, which prevent my coming to an early decision on the proposals now submitted to me, and in the meantime I should be glad to receive from your Government further observations on the following questions which occur to me as especially needing examination and discussion —

- (i) What probability is there that there will be throughout the year a field in India for the remunerative employment of the additional share capital which it is proposed to raise?
- (ii) If funds are temporarily borrowed in England, how would they be remitted to India in such a manner as to form an addition to the amount available in India under existing conditions?
- (iii) If they would have to be brought back again in the slack season, what would be the effect on the Secretary of State's remittances?
- (iv) Is it advisable to allow a bank which has the command of the Government balances to employ its deposits out of India, and to incur liabilities by borrowing abroad?
- (v) Is it likely that the possible conflict of interests between a bank of this description and other existing institutions might tend to discourage private enterprise and to prevent the development of the facilities which the public now enjoys?
- (vi) Is it prudent for the Government to pledge itself to place all its balances in the Presidency Towns in the hands of a bank?
- (vii) Is it desirable to entrust to a bank the management of the Paper Currency, due regard being had to the principles upon which it was established in 1862?

It will be understood that I express at present no opinion upon any of these points, but merely desire to have such observations on them as may occur to you

I regret the impossibility of arriving at a conclusion on this subject, in time to allow a statement of your intentions to be made during the discussion of the Financial Statement, on which occasion the banking and mercantile community might not unreasonably expect to be informed of the result of Your Excellency's inquiries and deliberations

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No 199, dated Simla, the 13th June 1901

From the GOVERNMENT of India, Finance and Commerce Department, to the  
SECRETARY OF STATE for India

We have the honour to refer to your Lordship's despatch No 40-Financial, dated the 22nd March 1900, regarding our proposals for placing the banking system in India on a better footing by means of the establishment of a Central Bank. We delayed our reply to that despatch until the Honourable Sir Edward Law should have gained some experience of the working of the Indian banks and the commercial conditions of this country. Our Honourable Colleague has now had an opportunity of discussing the question with Directors and Managers of the three Presidency Banks, and also with representatives of the Exchange Banks and leading merchants, and under his advice we proceed to give the following categorical answers to the questions asked by Your Lordship

2 *Question I*—*What probability is there that there will be throughout the year a field in India for the remunerative employment of the additional share capital which it is proposed to raise?*

It would appear that there is no probability of remunerative employment being found *throughout the year* for any appreciable addition to the share capital held by the banks

3 *Question II*—*If funds are temporarily borrowed in England, how would they be remitted to India in such a manner as to form an addition to the amount available in India under existing conditions?*

If funds are temporarily borrowed in England, they would be remitted to India in one or other of the following ways—(1) by purchase of Council or Currency Bills, or Telegraphic Transfers, if such were available at profitable rates, (2) by exporting gold from London, which would be presented in India at the mints or treasuries for conversion into rupees, (3) possibly, to a limited extent, Exchange Banks might remit by means of London drafts payable in rupees in India, (4) to an equally limited extent, and under special circumstances only, Indian Government paper bought in England might be encashed for payment in India and there sold for rupees. The last method is an unlikely one, as when capital is required in India, there would be little or none available for investment

4 *Question III*—*If funds have to be brought back again in the slack season what would be the effect on the Secretary of State's remittances?*

It must be admitted that under all circumstances remittance back to England of funds borrowed there would have the effect of reducing the rates of Council Bills. This reduction would not be counterbalanced by the rise in rates caused by remittances of borrowed funds from England to India, because these remittances would take place in the busy season when Council Bills are already high and could not rise much further without touching specie point. The general effect of permitting the banks to borrow in England would probably be to lower the average demand for Council Bills for the year

5 *Question IV*—*Is it advisable to allow a bank which has the command of the Government balances to employ its deposits out of India, and to incur liabilities by borrowing abroad?*

We see no objection to allowing the Presidency Banks to employ their deposits in the slack season on temporary loans out of India and to incur liabilities within defined limits by borrowing abroad. The dangers which might arise from such borrowing are of two kinds.—

(1) The bank when repaying might be a loser by exchange. We think that this danger is hardly likely to arise to such an extent as to seriously affect the interests of Government.

- (2) The borrowing bank might be obliged to denude itself of resources for the purpose of meeting heavy payments at a fixed rate abroad. Any possible danger to Government could, however, be provided against by making it a condition of continuing the Government deposits with the bank, that the bank should undertake to hold a fixed minimum proportion of cash to liabilities.

Such a condition would also provide against the danger that the bank might, by lending abroad, lock up too much of its capital out of India.

6 *Question V*—*Is it likely that the possible conflict of interests between a bank of this description and other existing institutions might tend to discourage private enterprise, and to prevent the development of the facilities which the public now enjoys?*

We think it is evident that, if a Central Bank were obliged to hold more capital than it could profitably employ throughout the year in ordinary business, such a bank would be obliged to enter into prejudicial competition with private banks, and further, the existence of such surplus capital in India might check the outward flow of capital from private sources when occasion presented itself for its profitable employment.

7 *Question VI*—*Is it prudent for the Government to pledge itself to place all its balances in the Presidency towns in the hands of a bank?*

We do not consider that it would be prudent for Government to pledge itself to place all its Presidency balances in the hands of a Central Bank without considerable restrictions and some sort of control over the operations of the bank.

8 *Question VII*—*Is it desirable to entrust to a bank the management of the paper currency, due regard being had to the principles upon which it was established in 1862?*

Our Honourable Colleague Sir E. Law is of opinion that the management of the paper currency by a bank would be preferable to its management by Government, always provided that the bank to which this responsibility was entrusted was established on suitable lines, and that Government had some control over its operations. While feeling some doubt as to the desirability of transferring any of the banking functions at present exercised by Government, we are in accord with our Honourable Colleague in thinking that it would be unwise to entrust them to any institution that is not under the most disinterested management. The Bank of England offers an example of an establishment which is by reason of its constitution more interested in maintaining its prestige than in adding a temporary percentage to the dividends of its shareholders. But we fear that in India the voice of the shareholders would always make itself heard, and it would therefore be necessary, before making over to a bank any of the present operations of Government, to provide for some form of Government control.

9. It will thus be seen that we admit the force of some of the objections which have been raised against the scheme, the chief of which is the cost of providing the extra capital that would be required. Of the capital at present available for financing the trade of India it is difficult to form a precise estimate. The total capital of all the Joint Stock Banks amounts to Rs 25,39,09,500, but this includes the whole capital of the Exchange Banks, a large proportion of which is employed out of India. It is impossible to fix what this proportion may be, but there is reason to believe that considerably less than one-half of the capital of these banks could be made quickly available in India to meet special demands.

10. We think it may be accepted that the maintenance of a gold reserve for exchange purposes, the reason originally put forward at the Currency Commission for the suggestion of the establishment of a Central Bank, is at all events a much more serious motive for considering the question than the more doubtful requirements of loanable capital for trade purposes. Three millions sterling may be taken as the minimum addition which for practical purposes it would be worth while to consider as a gold reserve, though we should prefer to see a larger sum secured, affording a more effective

guarantee The cost of holding this capital evidently depends on the opportunities which the bank could find for its profitable employment The banks have consistently maintained that there is no opportunity for the constant profitable employment of any further capital than they already command, and, though his earlier impressions were different, a close study of the question has forced on our Honourable Financial Colleague the conviction that the contentions are in the main correct It may be added that as regards funds on which it is intended to rely as a sure resource for exchange purposes, their employment must necessarily be so restricted as to put special difficulties in the way of their profitable investment

11 The average dividend paid by the Bank of Bengal is 10 per cent and the bank's representatives have expressed the opinion that if they were to add appreciably to existing capital, they must, to maintain dividends, find from extraneous sources a return of 8 per cent on the additional sum It is impossible for us to pronounce on the fairness of this estimate, but we are inclined to consider it as a reducible maximum It might perhaps be found as the result of experience, that it should be reduced to 6 per cent It may be noted in this connection that the Presidency Banks are asking for the relaxation of some of the restrictions under which they now work, and we are inclined to think that in the event of amalgamation certain concessions might reasonably be admitted It is again impossible to estimate beforehand the value of such concessions, but they may perhaps be roughly estimated at 3 lakhs per annum, or  $\frac{2}{3}$  per cent on an additional capital of 3,000,000*l* Thus if we were to require the combined capital of the Presidency Banks to be increased to this extent, we must be prepared to accept as a fair demand for compensation or allowance, an annual sum equal to 5 per cent on the increase

12 As the Government of India can borrow money at much cheaper rates than 5 per cent, it would be unprofitable, as far as the maintenance of a gold reserve is concerned, to employ the agency of an amalgamated bank for holding it.

13 There are other practical difficulties in the way of amalgamation arising out of provincial and personal jealousies, and, as we have explained in paragraph 8 above, we fear it would be impossible to find for a Central Bank in India a body of Directors who would conduct their business under the same influences as those which guide the Directors of the Bank of England We do not think it necessary at present to dilate further upon these difficulties, which are not perhaps insurmountable, because we have decided, for the other reasons set forth above, to recommend to Your Lordship that the proposal to amalgamate the three Presidency Banks should not be persevered with for the present

14 We append a separate minute by the Honourable Sir Edward Law which explains the arguments on which the main conclusions set forth above have been arrived at We are aware that many of the questions involved are of a controversial nature, but we have accepted our Honourable Colleague's final deduction that sufficiently strong reasons have not been shown for carrying out the amalgamation scheme at the present time We are therefore regretfully compelled to advise that the scheme should be held in abeyance, although we desire at the same time to record our deliberate opinion that it would be distinctly advisable, if practicable, to establish a Central Bank in India, so as to relieve Government of its present heavy responsibilities and to secure the advantages arising from the control of the banking system of a country by a solid and powerful Central Institution

#### ESTABLISHMENT OF A CENTRAL BANK

*Minute by the Honourable Sir Edward Law, K C M G.*

Last winter I had the opportunity of discussing the question of the desirability of founding a Central Bank Institution, with Directors and Managers of the three Presidency Banks, and also with representatives of the Exchange Banks and some leading merchants, and I proceed to note

the impressions and opinions resulting from my conversations with these gentlemen

2 There are, I think, two main questions for consideration, (1) the desirability of establishing a Central Bank, (2) the cost to Government of establishing such a bank

3 There is necessarily a close connection between these two questions, the desirability of attaining an object being subject to consideration of the cost of attainment

4 I will assume for the moment, that the establishment of a central banking establishment in India is held to be desirable in principle. Its desirability was accepted by my predecessor, and I agree that it is desirable, if practicable and not too expensive or costly to Government, although my views on this question may in some respects differ from those set forth in the various notes and minutes by the Honourable Mr Dawkins

5 Admitting then the general desirability of a Central Bank, we should endeavour to estimate what would be the cost of maintaining such an establishment

6 The cost must, in the first instance, depend on the amount of capital required to be invested in the proposed bank and the use which can be made of that capital for dividend earning. This question is directly posed in paragraph 3, No 1 of the Secretary of State's despatch No 40 (Financial) of March 22, 1900.

7 For the purpose of estimating cost, we need only consider the minimum which might possibly suffice for the ends in view, but the fixing of this minimum is not an easy problem

8 The sum required, must, I think, depend, in the first instance, on whether the object chiefly considered is —

- (a) to form a reserve of gold available for exchange purposes, or
- (b) to add to the general capital resources in India, available for trade purposes in seasons of monetary stringency

The former was, I understand, the object in view when the proposal to found a Central Bank was first made at the sittings of the Currency Commission, the latter appears gradually to have taken its place

9 If the primary object is considered to be the augmentation of the reserve of gold available for exchange purposes, I think that as we have provisionally fixed 7,000,000*l* as the maximum sum to be held in the Currency Reserve, and as it will be long before our Gold Reserve Fund reaches an important amount, we may assume that 3,000,000*l* is the minimum sum which would prove a really useful addition to our gold resources

10. The next question, that of estimating the minimum sum that may be required as an addition to the capital already available for trade purposes is a particularly difficult one. It is generally assumed that trade demands for loanable capital are closely connected with the fluctuating requirements for cash for the movement of crops, and though many objections may be made to the assumption that the demands for loanable capital will vary in direct relation with the volume and value of exports of produce, at different seasons and periods, a study of the statistics of the export trade should afford useful indications to guide us in our inquiry

11 Comparing the value of exports in the year 1867-68 with the value of exports during the last twelve months, we find that the value of exports in the first period was 50 87 crores, and in the second period 105 7 crores, or an approximate increase of 100 per cent. Consequently, as far as this important factor in our consideration is concerned, it might be assumed that the demand for loanable capital is now double what it was in the year 1867.

12. But besides certain other factors manifestly affecting the situation such as progressive improvement of communications and increasing credit facilities, I must call attention to the curious results shown in the appended Table A.

TABLE A

Statement showing the value of merchandise exported from India during the years 1897, 1898, 1899 and 1900 with the Bengal Bank's maximum published rate of interest and the rate of Council Bills for the same period

Months	1897			1898		
	Value of Exports	Rate* for Council Bills	Rate of Interest	Value of Exports	Rate* for Council Bills	Rate of Interest
	Rs	Pence per rupee	Per cent	Rs	Pence per rupee	Per cent
January -	8,78,04,851	15 189	10	9,34,52,784	16 002	11
February -	9,82,61,163	15 241	10	9,70,68,863	15 920	12
March -	10,25,04,193	15 066	10	9,94,34,555	15 874	12
April -	7,22,02,871	15 009	10	9,53,28,942	15 959	12
May -	8,09,19,405	14 455	10	10,85,85,324	15 961	11
June -	7,19,85,838	14 648	10	9,42,65,299	15 888	11
July -	7,62,03,383	15 031	7	9,62,28,911	15 801	8
August -	7,17,54,950	15 494	5	8,90,21,171	15 899	4
September -	6,57,94,038	15 814	6	8,09,44,965	15 966	5
October -	7,46,14,910	—(1)	7	8,26,62,148	15 987	5
November -	8,88,93,382	—(1)	7	8,05,72,895	15 954	5
December -	8,30,47,750	15 400	9	8,62,74,240	16 007	6
	97,34,86,734	—	—	1,10,28,40,088	—	—

  

Months	1899			1900		
	Value of Exports	Rate* for Council Bills	Rate of Interest	Value of Exports	Rate* for Council Bills	Rate of Interest
	Rs	Pence per rupee	Per cent	Rs	Pence per rupee	Per cent
January -	10,21,84,221	16 087	7	10,32,92,817	16 160	8
February -	10,07,42,555	16 077	7	9,79,89,343	16 098	8
March -	11,14,04,069	16 019	7	9,01,30,034	16 041	8
April -	9,21,95,847	15 995	7	8,03,05,815	15 973	6
May -	9,20,44,648	15 979	6	9,17,46,214	15 987	6
June -	8,67,99,268	15 994	5	7,95,87,619	15 984	5
July -	9,73,36,326	15 984	5	7,49,66,216	15 941	4
August -	8,78,49,348	15 972	4	7,69,67,938	15 933	4
September -	8,11,85,607	16 079	6	7,14,77,871	15 951	5
October -	8,77,16,005	16 135	8	10,38,06,652	15 933	5
November -	8,19,98,412	16 118	7	8,89,31,218	15 963	4
December -	9,15,78,650	16 069	7	9,78,67,151	16 037	7
	1,11,30,34,946	—	—	1,05,70,68,888	—	—

(1) No bills were drawn in these months on account of the famine

\* Average rate

This table shows the value of exported merchandise, month by month, for the last four years, with the corresponding maximum rates of discount at the Bank of Bengal. In this connection, the private memorandum by Mr A M Landsay, reproduced below, may be considered

"A comparison of the rates of interest ruling in 1899 and 1900 with those in force during the preceding two years appears to indicate that the flow of capital to India anticipated by the Indian Currency Committee of 1898 has begun, and to judge by the comparative ease with which the exceptional strain caused by the famine of 1900 was met, there is reason to believe that should confidence in the stability of exchange be maintained, the existing facilities for the import of foreign capital will be ample to meet all legitimate demands on the short loan market in India. The years 1897 and 1900 were years of famine, and as usual at such times the demands on the money market were enhanced by the large internal trade in highly priced food-grains, while the local supply of money was curtailed by the reduction of the Government deposits with the Presidency Banks. In 1897 there was little confidence in exchange and therefore an inadequate import of capital, but so well did the Exchange banks perform their duty in 1900, that although the famine was more severe, the export trade slightly larger

and money dearer in London owing to the Transvaal War, the Bank of Bengal's published rate of interest averaged 5 3/4 per cent only, against 7 1/2 per cent in 1897, and 8 3/8 in other great famine year, 1877

"A comparison of the rates of 1898 and 1899, non-famine years, also certifies to the change in the resources of the Indian money markets caused by fixity of exchange. In January 1898 exchange reached 16d and the flow of capital from England to India was checked because there was a risk of loss and no prospect of gain on its return, but in 1899 there was a growth of confidence in exchange. Council remittances were overbought to the extent of 279 lakhs in excess of the balance of trade and Government Paper transfers, indicating that the anticipated flow of capital to India had commenced. Private deposits with the Bank of Bengal rose from an average of Rs 4,84,59,110 in 1898 to Rs 5,44,11,218 in 1899, while its published rate of interest fell from an average of 8 0/65 in the former year to 5 9/15 in the latter."

13 Referring to the figures of Table A, a close relation between the rate of discount and the value of exports might have been expected, but apparently there is very little. It will be observed that, whilst a 7 per cent rate existed concurrently with the comparatively small exports during October and November 1897,\* no higher rate was induced by the comparatively large exports in the first three months of 1899, and, that whilst a 10 per cent rate was maintained in April 1897, when the value of exports was below average, a 5 per cent rate sufficed for the large exports of October 1900.

14 These figures would seem to indicate that the rate of discount, and therefore the demand for loanable capital, has been more dependent on speculation and the nervous apprehensions of traders than on ordinary trade requirements. I will return to this question, but, meanwhile, for the purposes of the discussion of the minimum required addition to loanable capital in India, we may admit the generally accepted theory, and assume that during the last 33 years this requirement has increased in a proportion bearing some relation to the increase in the value of exports. The latter has doubled, and if we admit any connection between the two propositions, I think, we may say that the amount of available loanable capital ought to have increased by at least 75 per cent.

15 Objection has been taken to my assumption that the value of exports are an indication of the requirements of money for trade, and it has been specially suggested that the difference between the values of imports and exports would afford a better criterion, since a portion of the exports are paid for by imports.

16 I do not admit the correctness of the objection raised. First, because the values of imports, as compared with those of exports are relatively steady and they are not, apparently, affected to any appreciable extent by the period of the year, their influence is therefore a comparatively steady factor, which may be neglected as a contributing influence to the fluctuations we are considering. This is shown by the figures in the following table —

*Value of Imports (excluding Government Stores and Treasure) from 1896*

Month	1896	1897	1898	1899	1900	1901
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
January	6,23,32,900	5,48,46,769	6,76,92,948	7,05,23,868	6,52,20,624	7,63,83,354
February	5,76,06,380	5,30,32,509	5,86,79,327	6,07,82,903	5,05,37,566	6,47,47,164
March	6,68,54,865	5,64,21,094	6,65,79,661	6,46,87,298	6,11,11,963	—
April	6,14,61,601	5,59,65,438	5,25,71,123	6,31,47,132	5,54,03,638	—
May	5,86,32,156	4,92,50,471	5,01,47,344	6,01,15,250	6,11,13,567	—
June	6,35,48,053	5,23,36,351	5,37,75,863	5,20,03,090	5,61,95,867	—
July	5,94,81,813	5,06,81,652	4,78,53,792	5,23,81,107	4,91,74,098	—
August	5,58,00,883	4,80,06,471	5,23,30,717	6,00,07,372	6,17,18,897	—
September	6,66,22,773	5,99,43,926	5,39,69,679	5,48,55,106	5,36,25,066	—
October	6,95,21,778	5,76,43,346	5,44,26,322	6,46,71,519	6,69,31,288	—
November	6,88,53,531	6,55,61,746	6,43,61,912	6,29,41,451	6,96,23,765	—
December	6,10,34,263	6,26,32,639	5,83,51,586	6,01,26,354	6,91,42,899	—
Total	74,16,49,145	66,53,03,411	65,07,54,979	72,62,42,550	71,97,99,223	—

\* On this the Comptroller-General observes that famine expenditure had at the time so exhausted Government balances that the Secretary of State had to buy rupees in India instead of selling them.



17 Secondly, it is not for financing the export trade alone for which money is required. It is required in India, as in all other countries, rather for the general financial operations in connection with harvesting and movement of crops. Of these operations, the export of the surplus production above local needs, is the only one concerning which we can obtain reliable figures, and it is certain that the greater the production, the greater the surplus for exportation, and consequently I consider that the amount of exports is a very fair index of the amount of production, and therefore of the magnitude of the financial operations in direct relation therewith.

18 I have taken the year 1867 for comparison with 1900, because in the year 1867 an estimate of requirements was made by a very able man, Mr Dickson, then Secretary of the Bank of Bengal, who was at the time advocating the establishment of a Central Bank with an increase of capital and without any reference to possible requirements in connection with the exchange question. Mr Dickson proposed a Central Bank with a capital of 10 crores, of which 5 crores were to be paid up, as also a reserve of 80 lakhs, and it is evident that he fixed this amount with due regard to the requirements of trade, in 1867.

19 I have not been able to ascertain the amount of the combined capital of the banking establishments in India, other than the Presidency Banks, in 1867, but I have obtained figures for 1863, and in the accompanying Table B (see page 81) these figures will be found compared with the corresponding figures for 1900.

20 From Table B it will be seen that in 1863, the combined capital of the joint stock banks in India was Rs 7,42,16,600. This figure includes, however, over 6 crores, the capital of the Exchange Banks, and it is well-known that all these banks and particularly the Comptoir d'Escompte de Paris, have so large a proportion of their capital employed in other countries, that only a limited proportion is available for India. It is impossible to fix what this proportion may be, but, I think, it will be accepted that not more than one-half of the capital of the English Banks and not more than one-third of that of the foreign banks could be made quickly available in India to meet special demands.

21 I proceed, then, to correct the figures of 1863 in accordance with the above assumption, and they will then stand thus —

	Rs
Half capital of English Exchange Banks -	2,08,80,000
One-third capital of Foreign Exchange Banks -	64,46,667
India joint-stock Banks -	1,31,16,600
Total -	<u>4,04,43,267</u>

To the above amount we must add Mr Dickson's assumed figure of Rs 5,80,00,000 as the desirable capital for the amalgamated Presidency Banks, and we thus arrive at an estimated total of Rs 9,84,43,267. We should, however, admit some possible increase in the capital of the various banks, in the interval between the years 1863 and 1867, and we may, therefore, I think, fairly say that Mr Dickson's estimate of total requirements in the year 1867 was approximately 10½ crores.

22 If we had no other factors than the increase of trade between 1867 and 1900 to take into consideration, we might say that about 21 crores of loanable capital are required to satisfy present demands. But I have already pointed out that there are other factors such as improved communications and facilities for credit, which must influence the situation, and I think, therefore, that we should not be justified in adding more than 75 per cent to Mr Dickson's estimate for 1867. Adding then 75 per cent to 10½ crores we arrive at an estimate of 17 to 18 crores of loanable capital as necessary to meet present requirements.

23 Referring again to Table B we see that the total capital of the joint-stock banks is now Rs 19,86,09,500, and correcting this figure as above, to



24 Consequently, adopting the above figures and calculations, it would appear that an addition of about 3 crores is required to the amount of capital now available in India for the demands of trade

25 It has been suggested that the proportions of one-half and one-third which I have taken as the available capital of the English and Foreign Exchange Banks are much too high, but if these proportions be considerably reduced, and we take an average of one-quarter only, as available from the capital of both categories of banks, the results of the above calculation will not be materially affected. We shall then have—

Available capital in 1867 Rs 8,74,66,045 or, say, 9½ crores

Available capital in 1900 Rs 12,24,46,514 or, say, 12¼ crores

Difference approximately 3 crores

26 There are several considerable assumptions in the foregoing calculations but though it may be admitted that some are questionable, I think that on examination it will be found that the points of doubt are not of such a nature as to invalidate all conclusions

27 With the greatest respect for Mr Dickson's understanding of the commercial and banking situation, it cannot, however, be assumed that he was necessarily quite right in his estimates, but it may be pointed out that the addition of one crore and 80 lakhs to banking capital, which he proposed, was equivalent to an addition of over 22 per cent to existing available resources, and it would seem improbable that a proposal for so large an increase erred on the side of illiberality. On the contrary, it must be remembered that in August 1872 and April 1873, the Bank of Bengal addressed the Government of India requesting permission to reduce their capital. Arguments and figures were set forth to prove that the capital of the bank was too large for profitable employment, and finally the Government was convinced, and in 1876, consented to an important reduction. In this connection see the appended Table C which was given in the letter from the Bank of Bengal to the Government of India, dated April 30, 1873

TABLE C

*Accompanying letter, dated the 30th April 1873, from the Bank of Bengal to the Government of India*

YEAR	Average Amount of Deposits including Government Balances	Average Amount availed of from Deposits for Bank's Business	Average Percentage of Deposits Employed for Bank's Business	Average Amount of Government Balances Appropriated for Bank's Business	Average Percentage of Cash Balance and Government Securities to Liabilities
			Per cent		Per cent
1868	4,32,49,438	48,50,743	11	Nil	91
1869	4,16,97,066	6,61,233	1½	Nil	99
1870	5,16,34,668	29,79,057	5¾	Nil	91
1871	7,13,88,174	93,85,637	13	34,48,835	84
1872	7,15,17,077	83,94,409	11¾	21,37,330	86

28 Another assumption is that although trade has doubled, since 1867, the cash requirements for carrying it on have increased by 75 per cent. But in view of the very great concurrent increase of credit facilities, I should think that 75 per cent might reasonably be held to be a liberal estimate

29 Finally, there is a considerable assumption in taking the available proportion of the capital of the Exchange Banks, at one-half for English concerns and at one-third for the foreign establishments. I must leave the decision as to the correctness of this estimate to persons having an intimate acquaintance with the working of these establishments, only remarking that from what I have heard, I believe this estimate also to be sufficiently liberal, and that, as I have shown, if it be reduced, the results of my calculation will not be affected.

30 The general conclusion from the line of argument adopted must then be that, the estimate of three crores as an additional sum, which might be employed for trade requirements, may be taken as very amply sufficient, and personally I have no hesitation in accepting it as such, since it is confirmed by the figures in Table A, which, indeed, appear to indicate that, as far as trade is concerned, existing resources are sufficient, provided that the banking establishments are conducted with such circumspection as will insure their resources being reasonably free for the use of their trading clients in seasons of business activity

31 I proposed to endeavour to establish a "minimum" for the additional requirements of loanable capital—the course of argument adopted has involuntarily led me, in the first instance, to the establishment of a "maximum" That maximum works out at three crores of rupees, or two millions sterling. This, however, is a sum which, if really required, could I believe readily be found by the existing banking establishments outside the Presidency Banks, and without making any demands on the latter for reorganisation or the increase of their capital. If it is not so found, the reason to my mind is clear, namely, that it is not wanted

32 Till a comparatively recent date the banks were nervous about transmitting their gold resources to India, but such nervousness due to apprehensions concerning the course of exchange, has now disappeared and gold is frequently and constantly sent to India for investment. The only obstacle which hindered the supply of capital by private initiative has, therefore, disappeared

33 General rates of discount are sufficiently high in India, as compared with those at home, to attract all the capital required for sound banking business and we cannot desire that a plethora of capital should induce the banks to foster unsound business

34 The inevitable conclusion is that, as regards additional trade requirements for loanable capital, the "minimum" we sought to establish can only be fitly represented by zero

35 I return now to a point which was earlier mentioned incidentally, namely, that latterly, monetary difficulties in India have owed their origin to speculative finance, and the nervousness of traders, rather than to the normal absence of sufficient resources to meet the legitimate banking requirements of trade

36 Although the figures in Table A indicate pretty clearly that ordinary requirements can be properly met by present resources, they equally show that on several occasions, and notably during the first six months of 1898, there has been extreme and most prejudicial stringency in the money market. This condition of stringency could not arise without cause, and the only causes that can be suggested are the locking up of the resources of the banks in transactions with clients, outside ordinary transactions with purely commercial customers, and the nervousness of traders who noticing the low level of banks' resources at the commencement of an active business season, take fright and assist by their anxiety in abnormally, and perhaps unnecessarily, forcing up bank rates.

37 This is, I think, the only explanation which can be found for the remarkable figures shown in Table A, and its correctness has been strongly confirmed during the last few weeks

38. I have already pointed out the fact that the very large exports in October 1900 were financed at a 5 per cent rate of discount, followed by a 4 per cent rate in November, whilst in December there was a sudden jump up to 7 per cent. This for a couple of weeks produced something like a panic among the commercial community who were looking forward to a continued rise, resulting in disastrous rates just at the commencement of the ordinarily busiest season. I do not say that these apprehensions were entirely unfounded, but the situation was undoubtedly aggravated by the manner in which they were given way to.

39 On this last occasion, the origin of the monetary difficulty was distinctly traceable to causes having no relation with ordinary demands for money for legitimate trade purposes. It is well-known that the difficulty began in Bombay in connection with a heavy speculation in Government securities at the same time that some of the Exchange Banks counting on a continuance of the low rates of the autumn, had made advances on terms at very low rates of interest. This, combined with rising rates and stringency in London, resulted in calls on the Presidency Banks which made the crisis general.

40 The following statement shows the rapidity with which the pressure made itself felt, and the serious consequences which followed —

*Weekly Percentage of Cash to Liabilities in the Presidency Banks*

Week ending	Madras	Bombay	Bengal
December 8, 1900 - - -	41 40	38 16	—
" 11, " - - -	—	—	37 7
" 15, " - - -	36 76	26 19	—
" 21, " - - -	—	—	30 9
" 22 " - - -	—	19 65	—

And, meanwhile, the Bank of Bengal rate rose from 4 to 7 per cent and all this took place whilst trade movements, as indicated by the monthly values of exports, had declined from the high figures of October.

41 As a result of the foregoing considerations, I think that we may accept that the maintenance of a gold reserve for exchange purposes, the reason originally put forward at the Currency Commission for the suggestion of the establishment of a Central Bank, is at all events a much more serious motive for considering the question than the more than doubtful requirements of loanable capital for trade purposes.

42 I have suggested that for exchange purposes a sum of three millions sterling is the minimum addition which, for practical purposes, it would be worth while to consider, though I may say that I should prefer to secure a larger sum affording a more effective guarantee. However, we may proceed to consider the cost of an addition of 3,000,000*l.* to the existing capital of the Presidency Banks.

43 The cost of holding additional capital evidently depends on the opportunities which the bank could find for its profitable employment. The banks have consistently maintained that there is no opportunity for the profitable employment of any further capital than they already hold, and though my earlier impressions were different, a close study of the question has now forced on me the conviction that their contention is in the main correct. I may add that as regards any funds on which it was intended to rely as a sure resource for exchange purposes, their employment must necessarily be so restricted as to put special difficulties in the way of their profitable investment.

44 The average dividend paid by the Bank of Bengal is 10 per cent, and the Manager and Secretary whom I have consulted have expressed the opinion that if they were to add appreciably to existing capital, they must, to maintain dividends, find from extraneous sources a return of 8 per cent on the additional sum. It is impossible for any one not intimately acquainted with the working of the bank to pronounce on the accuracy of this estimate, but I should be inclined to accept it as a reducible maximum.

45 Among other points to be taken into consideration, is the fact that the Presidency Banks are asking for the relaxation of some of the restrictions under which they now work, and I gather that in the opinion of my predecessor, as in my own, certain concessions might reasonably be admitted. It is impossible to estimate beforehand the value of such concessions, but they would undoubtedly have a distinct money value to the banks, and I am inclined, as a guess, to put this value at a couple of lakhs per annum, or,

if for the sake of argument we admit that net profits might be increased by one per cent through the advantages of additional facilities for working, we may roughly take three lakhs per annum as the possible gain to the banks

46 Three lakhs represent  $\frac{3}{4}$  per cent on an additional capital of 3,000,000*l*, and I think we might perhaps estimate the cost of such an addition as susceptible of reduction to this extent, without involving any cost to Government. Further we may perhaps assume that the maximum cost, as estimated by the bank authorities might, as the result of experience, be reduced from 8 to 6 per cent, but when every allowance of this kind is made, I think we must still be prepared to accept as fair a demand for a compensation or allowance of 5 per cent on the additional capital

47 But the Government of India can borrow money at much cheaper rates than 5 per cent, and therefore as far as the maintenance of a gold reserve is concerned, it would be unprofitable to employ the agency of an amalgamated bank for holding it

48 The arguments and considerations set forth in the foregoing pages are necessarily in many respects inconclusive. Where there are so many doubtful elements and estimates, the correctness of which could only be established by experience, this is inevitable. I have endeavoured, however, to take throughout, within reasonable limits, such a view of the situation as might be favourable to the idea of the utility of the establishment of a Central Bank, and, nevertheless, the conclusions which have forced themselves on my mind are that there is under present conditions no real necessity for the foundation of such a bank in the interests of trade, and that although, in my opinion, the existence of a strong bank with abundant resources would be useful in connection with possible exchange difficulties, and I may add, would, from other points of view, be convenient to Government, the direct cost of its establishment would be greater than I venture to recommend for acceptance

49. I do not consider that it would be prudent for Government to pledge itself to place all its balances in the hands of a Central Bank without considerable restrictions and some sort of control over the operations of the bank

50 I think that the management of the paper currency by a bank would be preferable to its management by Government, always provided that the bank to which this responsibility was entrusted was established on suitable lines, and that Government had some control over its operations

51 In speaking of suitable lines, I am particularly referring to the constitution of the Bank of England. That establishment is by reason of its constitution more interested in maintaining its prestige than in adding a temporary additional percentage to the dividends of its shareholders, and I fear that it would be quite impossible to conduct a Central Bank in India on the same lines and under the same influences as those which guide the Directors of the Bank of England

52 I think I should here state that, whilst convinced that it is unnecessary to establish a Central Bank for the assistance of trade, and unprofitable, as regards provision of assistance in connection with possible exchange difficulties, I am still of opinion that if practical difficulties could be overcome, it would be distinctly advisable to establish such a bank so as to relieve Government of present heavy responsibilities and to secure the advantages arising from the control of the banking system of a country, by a solid, powerful, Central Institution

53 In India Government is to-day the chief banker. I do not think it well that Government should occupy such a position\*, and I am only deterred by what appear to me to be the very great practical difficulties of the situation, from making proposals to relieve Government of its banking functions and responsibilities. Among these difficulties I consider that of

\* I should mention that this view is not accepted by either Mr Finlay or Mr Cox.

securing a thoroughly suitable Board of Directors having the necessary leisure to devote to the business, as being one of the most serious

54 I have not, in these notes, dealt with the important practical question of the difficulties which the idea of the amalgamation of the Presidency Banks presents by reason of provincial and personal jealousies. If on the considerations I have adduced the idea of amalgamation be postponed, there is no need to discuss the subsidiary question as to how it could best be brought about. It is sufficient to remark that this question would in itself present very great difficulties, though perhaps with time, care, and tact, these difficulties would not prove insurmountable.

31st January 1901

E. F. G. LAW

No 131, dated 26th July 1901

From the SECRETARY OF STATE for India to the GOVERNMENT OF INDIA

Your Excellency's letter, dated the 13th June, No 199, together with the accompanying minute of Sir Edward Law, dated 31st of January, relating to the question of the establishment of a Central Bank of India, has been under my consideration in Council.

2 You will remember that the Currency Committee in their report referred to the need of improvement in the banking arrangements of India, and that in my despatch of the 25th July 1899 I specially recommended to your Excellency the consideration of Mr Hambro's suggestion for a Central Bank, on the model of the Bank of France or of the Bank of England.

3 Since then the subject has occupied the attention of your Government and you have come reluctantly to the conclusion that the circumstances are unfavourable to the policy of pressing on the centralisation scheme at the present time. This opinion I consider myself bound to accept, but I agree with your Excellency that it will be distinctly advisable, as soon as may be practicable, to establish a Central Bank in India, for the reasons given in your letter and in Sir Edward Law's able minute, and I request that this object may be kept in view and that the scheme may be revived, whenever there is a probability of its being successfully carried out.

### **Papers relating to changes and proposed changes in the Presidency Banks Act (1904-6).**

No 264, dated Simla, the 21st July 1904

From the GOVERNMENT OF INDIA, Finance and Commerce Department, to the SECRETARY OF STATE for India

WE have the honour to lay before you certain proposals, which have long been under our consideration, for removing some of the restrictions imposed by the Presidency Banks Act on the business of those Banks.

2 In the correspondence, which closed with Lord George Hamilton's Despatch No 131 (Financial), dated 26th July 1901, relating to the question of establishing a Central Bank of India, it was brought to notice that the limitations which at present curtail the operations of the Presidency Banks might reasonably be relaxed in certain directions. In particular we would invite a reference to the Despatch No 17, dated 18th January 1900 (see page 399), in which Lord Curzon's Government expressed the opinion that, if the position of the Banks was strengthened by amalgamation and by an increase in their resources, it would be both safe and desirable to allow them to extend their business beyond their present limits.

3 When it was decided in 1901 that the time was not ripe for establishing a central banking institution in India, the question arose whether any of the requests of the Banks for increased facilities might be acceded to, although

no material change was to be made in their constitution. In our Financial Department's letter No 474-A, dated 28th January 1901, the suggestions which had previously been put forward were tabulated and the Banks were invited to make further proposals. Their replies, copies of which are enclosed, raised a number of other questions, and it was eventually decided to postpone the consideration of them until our Honourable Financial Colleague should have an opportunity of discussing them verbally with the representatives of the Banks.

4 An informal conference was accordingly held at Calcutta in December 1902, between the Honourable Sir Edward Law and the Secretaries and Treasurers of the three Banks concerned, and Sir Edward Law's conclusions were then laid before the Directors of the Banks in our Financial Department letter No 2265-A, dated 28th April 1903. You will see from that letter that our Honourable Colleague adhered to the opinion expressed by his predecessor that the various concessions asked for could not be granted unless the Banks were prepared to accept conditions which would materially strengthen their position. The Directors at first demurred to these conditions, but they have since agreed to them in a modified form, and we are now therefore in a position to put forward our recommendations, which, as will appear from the foregoing account of the negotiations, have been the outcome of long and mature consideration.

5 The most important change which we desire to recommend is the admission of the Presidency Banks in certain circumstances to the London market. It was pointed out in the Despatch of the 18th of January 1900, cited above, that the permission given by the Presidency Banks Act (XI of 1876) to deal in securities of the United Kingdom has remained a dead letter because the operations of the Banks are confined to India. The extension of their operations to England was steadily resisted by the Secretary of State in 1862 and subsequent years on the ground that no Bank in India should be entrusted with the Government business unless it was absolutely debarred from dealing in foreign exchanges. The variations in exchange between India and the United Kingdom have now become so restricted that the objection taken on this ground appears to us to be no longer forcible. Moreover, the Banks have represented that all risks of fluctuations in exchange can be avoided by fixing the rates both ways at the time when the borrowing is conducted.

6 A further objection, adverted to in the same despatch, was that no risk should be incurred of the resources of the Banks being locked up in London when they might be required in India. The Banks have, however, pointed out that the concession of a power to borrow in London would lead to an increase, and not to a diminution or lock up, of their resources. It is possible that this objection, which was originally stated in the Secretary of State's Despatch No 135, of the 2nd of May 1878 (*see* page 516), was based on the idea that the admission of the Banks to London would result in their being drawn into general banking business there, including the receipt of deposits and investment in sterling securities. We are prepared to meet this objection, if necessary, by prohibiting the Banks from receiving deposits in London or from investing in British securities, but we doubt the necessity of curtailing the powers of investment which they at present enjoy under section 36, clause (a), sub-clause (1) of the Presidency Banks Act.

7 The only other objection, which it appears to be necessary to discuss, is the effect on exchange of the proposed borrowing by the Presidency Banks in London. In paragraph 4 of the Despatch from Lord Curzon's Government No 199, dated the 13th June 1901 (*see* page 426), it was stated that the general effect of the proposal would probably be to lower the average demand for Council Bills for the year. It is true that this effect will probably ensue if exchange is forced up to, or above, specie point in the busy season, but if the brisk demand for drafts on India in that season is freely met by the sale of Council Bills or Telegraphic Transfers at rates which will not drive gold to India, the rupees in the Currency Reserve being utilized, if necessary, for meeting the Bills or Transfers, the Secretary of State will be in a position to restrict his sales when the demand slackens, and to obtain funds for current expenditure



by transferring gold from Currency to Treasury account. We see no reason why it should not be possible to adjust the sale of Council Bills more closely to the needs of the market, so that the remittance of money by the Banks to India and back again to London will not have a prejudicial effect on the Government remittances.

8 The combined weight of the above objections does not appear to us to be great in comparison with the obvious advantages which would be secured to commerce and industry in India by the freer importation of funds in times of monetary stringency. We regard the provision of relief in such periods of temporary scarcity of capital as of far more importance to trade than the larger supply of permanent capital advocated by our predecessors four years ago. The periods of activity of many of the important industries of India are of short duration, and their demands for capital generally synchronize, it would appear to us to be unreasonable that the chief banks in India should be prevented from importing funds to meet those demands when they become acute.

9 We do not anticipate that the power to borrow in London would be frequently used, and we would in any case limit its exercise to occasions on which there is a real demand for money in India. Such a demand may be inferred to exist when the Bank rate is not lower than 6 per cent, and we would therefore propose that a Presidency Bank should only be allowed access to London when its rate for demand loans has risen to this figure. We further propose that, in order to prevent the borrowing operations of the Banks from interfering with the arrangements for Government remittances, they should be required to make their remittances to or from London in such form as may be approved by the Comptroller General in each case.

10 The power which we propose to give to the Banks of borrowing in London implies permission to remit the funds borrowed to India, and also to make remittances to England for the repayment of loans raised there, and we would therefore allow the Banks to deal in foreign bills to this extent. We would also accede to a moderate request which has been preferred by the Bank of Bengal that the Banks should be allowed to draw sterling drafts on London for the home remittances of their customers, subject to a limit of 200*l.* in each case.

11 Our next proposal is to allow the Banks to deal in securities issued by State-aided railways, such as branch lines constructed on rebate terms, or issued by District Boards, and to allow the Bank of Madras to deal in securities of the Government of Ceylon. The first two classes of these securities appear to us to be a perfectly safe and proper field of investment, and the possible objection that too much of the Banks' capital might be locked up in them will be obviated by the proposal set forth below to require the Banks to maintain a minimum proportion of cash to liabilities. With regard to the third class, Sir Henry Fowler in his Despatch No 232 (Financial), dated 30th December 1894, expressed the opinion that it was objectionable to permit the funds of a Presidency Bank to be invested in the securities of another Government (except that of the United Kingdom). The Bank of Madras has, however, represented that it wishes to be in a position to advance money to approved customers on the securities of the Government of Ceylon rather than to invest money in them on its own account, and the Directors are willing to accept a proviso that such advances should be limited to resources raised in the Island of Ceylon itself. Subject to this proviso, we do not consider the proposal to be objectionable or likely to lead to a drain of funds from India.

12 Under section 37 of the Presidency Banks Act, the Banks are prohibited from making any loan or advance for a longer period than three months. It has been represented that many trades which the Banks are authorised to finance, as for instance the coffee trade in Southern India, require advances for more than three months at a time, and that the necessity of renewing the transaction at the end of that period is an inconvenience both to the Banks and to their customers. We consider that the representation is reasonable, and we propose to allow loans and advances on other than personal security to be made for a period not exceeding six months.

13 The last sentence of section 37 of the Act permits any of the Banks to allow any person having an account with it to overdraw without security to the extent of not more than Rs 2,000 at any one time. Considering that by-laws framed in accordance with clause (d) of the same section permit advances to an individual or partnership firm amounting to several lakhs of rupees, we think it reasonable to extend the limit for overdraft to approved customers, and we propose to fix it at such sum not exceeding Rs 10,000 as may be prescribed by by-law.

14 Under the proviso to section 14 of the Act a maximum limit is set to the capital of each Bank. Since the sanction of the Governor General in Council is necessary, under section 13, to any increase of the Bank's capital, the effect of the proviso in question is to limit the powers of the Governor General in Council. We regard this limitation as unnecessary, and we propose to take the opportunity of repealing the proviso.

15 Under section 37 of Act IV of 1862, the Bank of Bengal had power to take over the capital, assets, and business of any other bank in British India, provided that, after the purchase, the business should be carried on with, and subject to, the several restrictions contained in the Act. It is not apparent why this provision was omitted in the Act of 1876 and the Bank of Bengal asks that it may be restored. We think that it might be an advantage in times of crisis to allow a Presidency Bank to take over the business of a small Bank which otherwise might be compelled to close its doors. We therefore propose to restore this provision of the Act of 1862, with an additional limitation that the sanction of the Governor General in Council shall be necessary in each case.

16 Under section 36, clause (a), sub-clause (b) of the Act of 1876 the Banks are allowed to advance money on accepted bills of exchange and promissory notes endorsed by the payees, *i.e.*, practically on the security of two names. The Bank of Bengal, citing the analogy of the Bank of Egypt, asks to be allowed to advance money on the joint and several promissory notes of two or more persons unconnected in business. We see no objection to this suggestion, and propose to amend the section accordingly.

17 The Bank of Bengal also asks that loans to the Court of Wards in respect of estates under management may be included in the list of the Bank's authorised business. Seeing that these estates are managed by responsible officers of Government, such loans appear to us to be a safe investment, though the objection has been taken that the capital lent on the security of wards' estates might be locked up indefinitely. We think that this objection can be met by requiring the previous sanction of the Local Government to such loans and by limiting them to periods of six months. We propose to grant the power asked for on these conditions.

18 We turn now to the further restrictions on the conduct of the Banks' business, which we consider it necessary to introduce, and to which the Directors have agreed on condition that the proposals set forth above are carried into effect. Section 47 of the Act provides that two auditors shall be elected at the annual general meeting of the shareholders of the Bank. We think it desirable that the Government should have the right to insist that the accounts shall be audited by satisfactory persons, and we therefore propose to take power for the Governor General in Council to annul any particular election of auditors made under the section above cited. It has been suggested to us that this should be supplemented by taking power to Government to appoint auditors itself, if on a second election an unsuitable selection should be made. It will be necessary to consult the Banks before effect could be given to this suggestion, and we think this may appropriately be done when the draft bill is circulated for opinion.

19 Prior to 1862, when the Banks' charters were revised, they were required to maintain a cash balance of not less than one-fourth of their outstanding liabilities, but this requirement was removed in that year with the withdrawal of the right to issue notes, and there is at present no legal provision to prevent the Banks from letting their cash balances run unduly low. We consider it unsatisfactory that Banks doing the Government

business should be free from all checks on the depletion of their resources, and we propose that, concurrently with the grant of the concessions suggested above, the Banks should enter into an arrangement with Government which will ensure the maintenance of an adequate cash balance. The standard which after prolonged discussion we have decided to recommend as the minimum compatible with safety, is 33 per cent of all liabilities (except Savings Bank deposits) payable at call or within one month. We accept the views of the Banks that other liabilities, being of a less pressing nature, need not be specially provided against.

20 We do not think it necessary to insert this provision in the Presidency Banks Act, since it has been represented to us that the imposition by law of a restriction of this kind might be regarded as indicating a want of confidence in the management of the Banks, and might therefore be injurious to their credit with the general public. For this reason we propose to embody this particular provision in a contract with each Bank as a condition on which it will continue to enjoy the use of the Government balances. The Directors of the three Banks have agreed to this course and they have further agreed to contract that, in the event of the cash balance of any Bank falling below the minimum standard stated above, the Bank will make good the deficiency, within such time as the Government may direct, either by—

- (i) taking a loan from the Government at 6 per cent or at Bank rate, whichever may be the higher, or
- (ii) depositing gold with the Bank of England in London, and, if so required by the Government, expending such gold in the purchase of Telegraphic Transfers from the Secretary of State.

21 We have explained to the Banks that we do not contemplate undertaking any obligation to advance money to them in the circumstances under consideration, but we desire to reserve the right to supply the deficiency in this way if it should be convenient to us to do so. With regard to the proposal to require gold to be deposited with the Bank of England, we apprehend that in some cases the mere knowledge that the Banks' resources have been strengthened in this way may be sufficient to restore confidence in this country, and that it will not therefore be necessary always to require the money to be actually transferred to India.

22 You will see from the enclosed correspondence that the above proposals have assumed their present shape only after long and careful consideration, and that the concurrence of the Banks has been secured by modification of the suggestions originally put to them. We regard the settlement now proposed as a satisfactory one, and we are of opinion that by the offer of moderate and carefully guarded concessions our Honourable Financial Colleague has succeeded in obtaining the assent of the Banks to an arrangement which will add materially to the safe conduct of their business and to the security of the public funds which are committed to their charge. We trust therefore that you will be able to accept these proposals in their entirety, and will accord your sanction to the legislation necessary to carry them into effect.

Enclosure No 1

No 474A, dated the 28th January 1901

From J F Finlay, Esq, C S I, Secretary to the Government of India, Finance and Commerce Department, to the Secretary and Treasurer, Bank of Bengal, to the Secretary and Treasurer, Bank of Bombay, to the Secretary and Treasurer, Bank of Madras

The Government of India have still under their consideration the question of the establishment of a Central Bank, on which question it is anticipated that the Government of India will shortly be able to make definite proposals to the Secretary of State.

2 At the same time the question of increasing the general banking facilities by extending the operations of the Presidency Banks, has also been considered. Various suggestions have from time to time been made with this object by the Directors of the Presidency Banks and by the Chambers

of Commerce, but the discussion has now reached a stage at which the Government of India think that the formulating of a definite programme by the Banks is desirable, so that Government may be prepared to make specific proposals to the Secretary of State. I am therefore directed to ask you to draw up a brief statement of the measures which your Directors recommend in the way of removing the restrictions imposed by the Presidency Banks Act on the operations of the Banks.

3 A statement is annexed to this letter, in the first column of which a summary is given of the requests that have already been preferred by the Banks. In the second column of Remarks an indication is given of some of the objections which it has been thought that it would be necessary to meet, and it is suggested that the Directors of the Presidency Banks might facilitate the decisions of Government by pointing out how such objections or others of like nature might, in their opinion, be satisfactorily met. For instance, the remarks against the first proposal in the annexed statement indicate some of the objections which have been suggested regarding borrowing in the United Kingdom by the Presidency Banks, and His Excellency wishes to receive the views of the Directors as to the precautions which they would recommend to obviate such objections.

4 If the Directors have any further proposals to make, I am to ask that they may now be brought forward and dealt with on similar lines.

Demands of Presidency Banks	Remarks
I—Permission to borrow in the United Kingdom	<p>One objection to this was that it would involve the Banks in dealings in foreign exchanges, a class of business which the Bank of England does not transact and which is not banking, but speculative commercial business. So far as this objection related to <i>large</i> fluctuations in the rate of exchange, it has now been removed by the fixing of exchange at 1s 4d, and the <i>element of speculation is much reduced</i>.</p> <p>A second objection was that the concession of a power of creating a foreign agency in England, such as would be the result of entering into loan transactions of the nature of those now contemplated, would admit of the Banks locking up a large portion of their capital at so great a distance as to render it practically unavailable in the case of any emergency arising in India. Possibly the Banks may be able to show that this result would not ensue.</p> <p>A third was that the position of the Banks should be strengthened by an increase of capital before they could safely be allowed resort to the London market.</p> <p>A fourth was that while access to London might be given to one amalgamated Bank, it could not be given conveniently to three separate Banks.</p> <p>Also precautions to be taken to prevent undesirable influences affecting the sale of Council Bills.</p>
II—Permission to deal in— (a) Securities of State-aided Railways. (b) Securities issued by District Boards with the authority of Government. (c) Ceylon Government securities (Bank of Madras)	<p>It might be desirable to fix a limit of proportion of assets to be so invested, and perhaps to limit to investment in debenture stock.</p>
III—Extension of the period for making advances to six months	<p>Class of advances on which extension might be admitted would require to be defined.</p>
IV—Increase of the limit for overdrafts without security from Rs 2,000 to Rs 5,000	<p style="text-align: center;">•</p>
V—Right to loans, either from the Reserve Treasury or from the Paper Currency Reserve, at the current rates for demand loans on Government paper	<p>Danger of depleting Government balances</p>

## Enclosure No 2

Dated 9th March 1901

From W D Cruickshank, Esq., Secretary and Treasurer, Bank of Bengal,  
to the Secretary to the Government of India, Finance and Commerce  
Department

I have the honour to acknowledge the receipt of your letter No 474A, dated 28th January, in which you inform me that the Government of India have still under their consideration the question of the establishment of a Central Bank, on which question it is anticipated that they will shortly be able to make definite proposals to the Secretary of State

You further inform me that, at the same time, the question of increasing the general banking facilities by extending the operations of the Presidency Banks has also been considered, and that the discussion of the various suggestions which have been put forward with this object from time to time has now reached a stage at which the Government of India think that the formulating of a definite programme by the Banks is desirable, so that the Government of India may be prepared to make specific proposals to the Secretary of State on the subject

In conclusion, you intimate that if the Directors have any further proposals to make you are to ask that they may now be brought forward

With regard to the question of the establishment of a Central Bank by the amalgamation of the three Presidency Banks, I am desired by my Directors to inform you that their attitude with regard to it has not undergone any change since I addressed you on the subject in my letter of 2nd December 1899 (*see* page 365) My Directors are still prepared to give respectful consideration to a scheme for amalgamation calculated to meet all reasonable requirements of Government and the Public, and to recommend it to the proprietors provided that sufficient inducements are offered, and that the general conditions are such as may be accepted with safety and with due regard to the Bank's interests

My Directors are glad to learn that the various suggestions that have been made from time to time with the view of increasing the general banking facilities by extending the operations of the Presidency Banks have also been considered, and that the Government of India desire to be prepared to make specific proposals to the Secretary of State regarding them Under their instructions I have prepared, and now forward herewith, a statement showing (1) the requests that have already been preferred by the Banks, (2) the objections which it is suggested they should meet, and (3) the replies of my Directors to such objections

I hope to be able to address you shortly regarding further proposals which the Directors have now under consideration

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## BANK OF BENGAL, CALCUTTA, 9TH MARCH 1901

*Summary of the requests which have been preferred by the Presidency Banks with a view to the amendment of the Presidency Banks Act, the objections to be met, and the Bank of Bengal's replies to these objections*

Demands of Presidency Banks	Objections	Replies to Objections
1—Permission to borrow in the United Kingdom	<p>One objection to this was that it would involve the Banks in dealings in foreign exchanges, a class of business which the Bank of England does not transact, and which is not banking, but speculative commercial business. No far as this objection is related to large fluctuations in the rate of exchange, it has now been removed by the fixing of exchange at 1s 4d and the element of speculation is much reduced</p>	<p>I am instructed by my Directors to reply as follows —</p> <p>The restrictions imposed by law on the Bank of England, as far as the Directors are aware, are confined to the Note Issue Department, no legal restrictions being placed on its banking business. During the Baring crisis, it is believed, the Bank of England borrowed largely from the Bank of France, and had dealings in foreign exchanges in connection with that transaction</p>
The petition of the Presidency Banks was as follows —	-	<p>The Government of India recognise that, so far as this objection relates to large fluctuations in the rate of Indian exchange, it has now been removed by the fixing of exchange at 1s 4d, and that the element of speculation is much reduced. As regards small fluctuations, I am to point out that the maximum exchange risk on a loan operation would be the cost of importing sovereigns into India from London and the cost of returning them, assuming that they could be obtained in India at Rs 15 each as at present. At the present rate of freight by steamer this would amount to 1 3 per cent, or 5 27 per cent, per annum on a loan for three months in addition to the loss of interest while the sovereigns were in transit both ways—the interest charge in London would of course have to be added. But in ordinary circumstance more economical means of remittance would be found—outwards, in the shape of Secretary of State's Council Bills and Wire Transfers, against (1) the Treasury balances of the Government of India, and (2) the Paper Currency Reserve under Act VIII of 1900, and, homewards, in the shape of Telegraphic Transfers of the Exchange Banks. As the Directors of the Bank of Madras say "it is now an easy matter to avoid any exchange risk" by the simple expedient of fixing the rate both ways at the time the transaction is entered into. The risk, however, is a matter which mainly concerns the Banks themselves, and they may well be left to make the most economical arrangements that may be open to them</p>
Your memorialists therefore humbly pray that the Presidency Banks Act (XI of 1876) may be amended, and that distinct and definite powers may, by the amending enactment, be given to such Banks—		
1st—To borrow money, either in India or England, by pledge of assets or otherwise, and on such terms as to repayment, interest, &c, as the said Banks may from time to time arrange		
2nd—To make remittances by Bills of Exchange or otherwise, as may seem expedient, to England in payment of the price of stock or other authorised investments from time to time purchased or acquired for the Banks in England, and also in repayment of loans arranged for there.		

Demands of Presidency Banks	Objections	Replies to Objections
<p>I—Permission to borrow in the United Kingdom—<i>cont</i></p> <p>Of these, the 2nd may be subdivided thus—</p> <p>1st—Remittances in repayment of loans</p> <p>2nd—Remittances in payment of authorised investments purchased</p>	<p>A second objection was that the concession of a power of creating a foreign agency in England, such as would be the result of entering into loan transaction of the nature of those now contemplated, would admit of the Banks locking up a large portion of their capital at so great a distance as to render it practically unavailable in the case of any emergency arising in India. Possibly the Banks may be able to show that this result would not ensue</p> <p>A third objection was that the position of the Banks should be strengthened by an increase of capital before they could safely be allowed resort to the London market</p>	<p>In the memorial of the Presidency Banks a request is preferred that power may be given to them to make remittances to England for the two distinct purposes specified in the margin. These are dealt with separately</p> <p>(1) As to the power to make remittances to England in repayment of loans arranged for there—</p> <p>The concession of this power, it is respectfully submitted, would <i>not</i> involve a lock up of capital at so great a distance as to render it practically unavailable in the case of any emergency arising in India. All money borrowed by the Banks in London would be immediately remitted for employment in India, and would be returned when no longer required. The Directors of the Bank of Bengal have never contemplated creating any agency in England beyond that of the Bank's own Bankers—the Bank of England and Messrs Coutts &amp; Co</p> <p>(2) As to the power to make remittances in payment of the price of stock or other authorised investments from time to time purchased or acquired for the Banks in England—</p> <p>It was preferred with the object of correcting an inconsistency in the Presidency Banks Act. By section 36 (a) (1) the Banks are authorised to advance and lend money and open cash credits upon the security of "promissory notes, debentures, stock and other securities of the Government of India, or of the United Kingdom of the Great Britain and Ireland," and, by clause (d) of the same section, to invest the funds of the Banks in any of the securities specified in clause (a) (1). But by section 36, clauses (l) and (m), the power of the Banks (1) to draw Bills of Exchange, and (2) to buy Bills of Exchange payable out of India, is strictly limited to transactions entered into under the orders of and at the risk of principals in the agency departments of the Banks</p> <p>The power to invest in securities of the United Kingdom granted by clauses (a) (1) and (d) is thus apparently rendered inoperative, because clauses (l) and (m) do not authorise the operations necessary for an effective exercise of that power. The Directors of the Bank of Bengal are of opinion that this defect in the Presidency Banks Act should be remedied, and also that it should be made perfectly clear that the Presidency Banks are authorised to make remittances by Bills of Exchange or otherwise, as may seem expedient, in payment of the price of stock or other securities purchased by the Banks in England, through their agents on account of, and under orders from, principals in this country</p> <p>The Directors of the Presidency Banks have already represented to the Government of India that the capital of the Banks is sufficient for the present requirements of their business, that the resources of the Banks have largely increased, and can be further increased by the encouragement of fixed deposits, and that all that the Banks and the money markets of India now require is a final resort for money. The Banks are unanimous on this point, and so are the Chambers of Commerce who were consulted by the Government of India on this subject. The use of the word "safely" in the objection is not apparent, whatever risk, if any, there may be in a loan transaction lies with the lender, not with the borrower, and the Presidency Banks would not be subjected to any risk other than of that making proper arrangements for repayment at the time they borrow</p>

Demands of Presidency Banks.	Objections	Replies to Objections																																																																																																
I—Permission to borrow in the United Kingdom— <i>cont</i>		I am to add that the Capital and Reserve of the Presidency Banks are already larger in proportion to the liabilities of the Banks than the Capital and Reserves of the Bank of England and other leading Banks at home, as shown by the figures given below, and the directors apprehend that any considerable increase of capital by the Presidency Banks might possibly, in an easy money market, have a far greater adverse influence on the sale of Council Bills than any casual borrowing transactions in London would be likely to have —																																																																																																
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	A fourth objection was that while access to London might be given to one amalgamated Bank, it could not be given conveniently to three separate Banks	This objection appears to be merely an argument in support of the proposal that the Presidency Banks should be amalgamated before access to the London market is allowed. It is not shown how or to whom inconvenience would be caused by giving access to three separate Banks, a simple amendment of the Presidency Banks Act being all that is necessary for the purpose. The Directors of the Bank of Bengal are of opinion that borrowing on the part of the Banks in London would not be of more frequent occurrence than borrowing from the Government of India has been in the past, and that it will still be possible for Government to regulate these borrowings so as to prevent interference with the sale of Council Bills. It has been urged that Government might influence the operations of one Bank, but not easily those of three Banks, the difficulty, it is submitted, would be overcome if the Banks undertook to report their London borrowings, and if that were done, the position would be that, by permitting such borrowings, the Government would avoid applications for loans from their balances at inconvenient times. It will, however, be the settled policy of the Bank of Bengal to avoid borrowing out of India. At the same time, a last resort for money is admitted on all sides, and by the Government of India themselves, to be desirable, if not absolutely necessary.																																																																																																



Demands of Presidency Banks	Objections	Replies to Objections.
I - Permission to borrow in the United Kingdom —cont	Also precautions to be taken to prevent undesirable influences affecting the sale of Council Bills	I am to point out that there are several ways of making remittances from England to India and <i>vice versa</i> , as shown in the replies to the first of these objections. They think this objection would be met by an undertaking on the part of the Banks to consult the convenience of the Government of India in every case, and make all their arrangements for such remittances subject to the approval of the Comptroller General
* * *	* * *	* * * * *
III — Extension of the period for making advances to six months	Class of advances on which extension might be admitted would require to be defined	The Directors are of opinion that if the extension is conceded, it should not be limited to any particular class of advances. They believe the concession would be beneficial as calculated to promote authorised transactions which necessarily contemplate a longer period than three months, but at present can only be arranged by renewals of loans for the shorter period.  This is another restriction which has not been deemed necessary in the case of the Bank of England, and it has already been relaxed in the case of the Bank of Madras in regard to Ceylon
IV — Increase of the limit for overdrafts without security from Rs 2,000 to Rs 5,000	-	This is a restriction which the Directors would like to see removed. It has been explained that the limitation was fixed to allow of an accidental overdraft. But when it is borne in mind that sums to the extent of six lakhs of rupees can be advanced on mere personal security, it does seem unnecessary to provide that the directors may not sanction a temporary overdraft to a constituent of undoubted wealth, holding in deposit with the Bank securities worth many times the amount of the overdraft.  Whether such securities constitute authorised investments at the Bank or not, the Bank's lien would attach to them, and it is submitted that the object of the restriction would be best secured by a bye-law giving the Directors a reasonable discretion in such cases
V - Right to loans, either from the Reserve Treasury or from the Paper Currency Reserve, at the current rates for demand loans on Government paper	Danger of depleting Government balances	My Directors desire me to say that, in the event of access to London being granted to the Bank, they will be satisfied with a general understanding that loans from the Reserve Treasury or Paper Currency Reserve may be granted only when convenient to Government. They will not ask for any definite assurance or for an open credit to operate on, but they submit that the Presidency Banks should not be denied short accommodation in this form at times when those reserves are sufficiently large to admit of the Secretary of State granting, at special rates, Wire Transfers on India instead of, or in addition to, the weekly sales of Council Bills

W D CRUICKSHANK,  
Secretary and Treasurer, Bank of Bengal

Enclosure No 3

Dated 22nd March 1901

From J Begbie, Esq., Secretary and Treasurer, Bank of Bombay, to the Secretary to the Government of India, Finance and Commerce Department

I have the honour to acknowledge receipt of your letter No 474-A, dated 28th January last, stating that the Government of India have still

under their consideration the question of the establishment of a Central Bank, on which question it is anticipated that Government will shortly be able to make definite proposals to the Secretary of State. The letter also states that, at the same time, the question of increasing the general banking facilities by extending the operations of the Presidency Banks has also been considered, and asks (1) that a brief statement may be drawn up of the measures which the Directors recommend in the way of removing the restrictions imposed by the Presidency Banks Act, (2) suggests that the Directors might facilitate the decisions of Government by pointing out how the objections raised to previous proposals, or other objections of a like nature, might, in their opinion, be satisfactorily met, adding that his Excellency wishes to receive the views of the Directors as to the precautions which they would recommend to obviate such objections, and (3) invites the Directors to bring forward any further proposals they have to make.

In reply I am instructed to say that the Directors, in their letter, dated 21st December 1899 (*see* page 388), to the Government of Bombay, intimated that they were prepared to consider fully and favourably any proposals which Government might make to them, with a view to the establishment of a Central Bank by the amalgamation of the Presidency Banks. They are still ready to give due and respectful consideration to any scheme which may be submitted to them.

With regard to the other contents of your letter, the Directors are greatly obliged for the opportunity now afforded them of replying to the objections brought forward in your letter to the proposals previously made.

The first proposal is that permission should be granted to the Banks to borrow in the United Kingdom, to which five objections are mentioned.—

The first is that borrowing in the United Kingdom "would involve the Banks in dealings in foreign exchanges, a class of business which the Bank of England does not transact, and which is not banking, but speculative commercial business." It is added that, "so far as this objection is related to *large* fluctuations in the rate of exchange, it has now been removed by the fixing of exchange at 1s 4d, and the element of speculation is much reduced." In reply I have to say that the Directors have been unable to ascertain that any restrictions are imposed by the Legislature on the general banking business of the Bank of England. The English Bank Act is an Act to regulate the issue of Bank notes, and has reference only to the note issue. The Directors are not aware that the Bank of England is not permitted to borrow out of the United Kingdom. On the contrary, it is well known that the Bank borrowed a large sum from the Bank of France at the time of what is known as the "Baring crisis." So far, therefore, as the example of the Bank of England is concerned, it supports the claim of the Presidency Banks for authority to borrow out of India. With respect to that part of the objection, which implies danger in dealing in foreign exchanges, the Directors beg to remark that ordinary operations in the exchange with England, such as the Banks would undertake if they borrowed in London, are based on the return which the transactions will yield, and cannot correctly be termed speculative business. The risk involved would be no greater than that which enters into ordinary banking transactions. There would be only the usual banking risk of the sufficiency of the companies or corporations dealt with to retire their bills or fulfil their contracts. The danger of loss by reason of the variations in the rate of exchange is greatly minimised now that the sterling exchange is fixed and the fluctuations in the rate confined within narrow limits. So long as exchange is fixed and gold obtainable for export, the maximum cost of borrowing and repayment operations could always be definitely ascertained before the transactions were entered into. There does not, therefore, appear to the Directors to be any necessity for taking any special precautions in connection with borrowing in London and the consequent transactions in the foreign exchanges. Further, the Directors desire to say, with all due respect, that no comparison can usefully be drawn between the Bank of England and the Presidency Banks. The former has charge of the note issue, while the latter have no power to issue currency notes. Again, the whole of the banking reserves in the United Kingdom are focussed in the reserve of the Bank of England, while in India a large

proportion of the monetary resources of the country do not form a part of the reserves of the Banks, and, further, a high Bank rate in India has not hitherto attracted foreign capital as a high Bank rate in England does.

The second objection is "that the concession of a power of creating a foreign agency in England, such as would be the result of entering into loan transactions of the nature of those now contemplated, would admit of the Banks locking up a large portion of their capital at so great a distance as to render it practically unavailable in the case of any emergency arising in India." In reply thereto the Directors desire to point out that the only way in which a Bank can lock up any part of its capital is by investing in securities which are not liquid or readily convertible into cash. Borrowing could not lock up the Banks' funds, and additional power to invest in English securities has not been applied for. The establishment of a foreign agency, therefore, would not admit, as supposed, of the Banks locking up capital so long as the powers of the Banks at the agency were not extended to include greater investing power in English securities than they now possess.

The third objection is "that the position of the Banks should be strengthened by an increase of capital before they could safely be allowed resort to the London market." The danger implied in this objection seems to the Directors to be non-existent. No reason is given for requiring an increase of capital before permitting the Banks to open in London as desired. The danger implied is not defined, and the Directors regret they are unable to discern wherein it lies. There seems to them to be no good reason for requiring additional capital before enabling them to borrow in London, seeing they already have the power of borrowing in India without supplying further capital. In order to borrow in London against security additional capital would not be necessary. The Banks could pledge Government of India or other authorised public securities. No danger to the Banks would attend an operation of that nature, and no further capital would be necessary. With regard to borrowing without the pledge of securities, that is, receiving deposits, the Directors consider that they should be able to collect a much larger sum than they have been able to gather hitherto without any addition to the Bank's existing capital, especially in view of the large Reserve Fund which they have accumulated and to which it is their intention to add as opportunity offers. The Reserve Fund, equally with the Bank's Capital, is the ultimate security offered by the Bank to depositors against loss. The percentage of the Capital and Reserve Funds of the three Banks to the total of their deposits compares favourably with the percentage which the paid-up Capital and Reserve Funds of the large English Banks bear to their deposits. No additional shareholders' capital, therefore, appears to be required. In the event of a large accession of deposits, it might become necessary to increase the capital to provide better security to the depositors, and the Directors would not hesitate to recommend that course if it proved to be really needed. But the usual and natural course is to increase the capital after it is required. The increase should follow and not precede, an augmentation of deposits.

The fourth objection is "that while access to London might be given to one amalgamated Bank, it could not be given conveniently to three separate Banks." The Directors regret they are unable to appreciate the weight of this objection. They do not believe that any inconvenience would be felt, and they consider that in any case a matter of convenience should not be permitted to stand in the way of an important and necessary addition to the resources of the money market. So far as borrowing against the pledge of securities is concerned, the amount could not be very large at one time. Borrowing against securities would not increase the amount of the Banks' investments. It would probably enable the Banks to hold larger permanent investments in Government securities. But it would not add to the total amount of money employed by them. On the other hand, power to borrow in London without the pledge of securities, that is, receiving deposits, would place more lendable capital in their hands and would enable them to add to their investments of all kinds. The Directors are unable to see in what way this would be inconvenient.

The precautions to be taken to prevent undesirable influences affecting the sale of Council Bills remain to be considered. Bringing to India the proceeds of loans raised in London and returning the money in payment of the loans would not affect the total sales of Council Bills. The operation of remitting the money to India would increase the demand for drafts on this country, while the reverse movement would lessen the demand for the bills to exactly the same extent as bringing the money to India increased the demand. In this connection the Directors desire to mention that other Banks and the public generally have means, at their disposal for obtaining loans in London and bringing the money to India. Large operations of this kind frequently occur without producing any appreciable effect on the sales of Council Bills. Loans to the Presidency Banks would not materially increase this class of business. On the contrary, they would probably take the place, to some extent, of other loans now arranged by the public direct. The Directors do not think that any danger exists of the business mentioned injuriously affecting the Government remittances.

I have to add that permission to borrow in London would require to be accompanied by authority to remit money to and from London by Bills of Exchange or otherwise, as might be expedient.

Before leaving this question of the grant of authority to raise funds in the United Kingdom, the Directors desire to impress on Government their strong conviction, that such authority is most necessary in the interests of the trade and credit of the country, as well as the Banks themselves. Under existing conditions in India there are at times no reliable means of converting even the best of investments into cash readily. The authority sought for would by no means be a perfect remedy for the dangers of the existing position. But every means of minimising those dangers should be placed within reach of the Banks, and the Directors, therefore, respectfully but firmly urge Government to amend and enlarge the Act as applied for

The third proposal is to extend the period for making advances to six months. The Directors think the period might be extended to twelve months in the case of advances against Government and other authorised public securities, and also against goods deposited with the Banks, but they think the limit of three months should be retained in the case of advances and discounts when the security is of a personal nature.

The Directors think that the proposal, that the limit for overdrafts without security should be increased from Rs. 2,000 to Rs. 5,000, might be adopted with safety.

The last proposal is the "right to loans, either from the Reserve Treasury or from the Paper Currency Reserve, at the current rates for "demand loans on Government paper" and its accompanying remark indicating the danger of depleting Government balances.

So far as loans from the Paper Currency Reserves are concerned, the Directors are of opinion that until currency notes are more widely acceptable to the public for currency purposes than they now are, it would not be altogether safe to rely upon them.

With regard to loans from the Reserve Treasury, while not claiming an actual right to them, the Directors respectfully maintain that in the interests of trade and of the monetary position generally, the Treasury surplus balances should be placed at the disposal of the Banks whenever possible. The Directors do not suggest that such loans should be given when inconvenience would be caused to Government, but they think that there are frequent occasions when the balances could be made available to trade without risk of undue depletion. In the event, however, of a serious emergency arising, and especially when the state of credit is bad and likely to lead to serious embarrassment, the Treasury balances should be used freely to restore confidence. With money in their vaults during a crisis, arising from loss of credit, Government could hardly, the Directors think, withhold assistance if it was wanted.

With respect to the question of the rate of interest to be charged for loans, the Directors think that, if the rate is to be settled in advance, it should be at a fixed percentage below the official Bank rate to enable the

Banks to compensate themselves to a small extent for the risks they would incur in lending the money. They prefer that the rate should be subject to arrangement at the time each loan is given or required. If loans are given because the money is available for temporary employment and to assist trade, the rate should be a fixed percentage under the official Bank rate.

Up to this point the Directors have dealt only with the situation placed before them in the letter under reply, which has reference only to the extension of the business in which the Banks may engage. They desire, however, to add that in their opinion the general monetary position in India should be taken into account in considering the means that should be adopted for the improvement of the banking facilities and money market in India. They humbly submit that, besides the extension of the operations of the Banks, which is under discussion, much assistance could be rendered with the monetary resources of Government. They would point to what they regret they must consider a wasteful policy in the entire withdrawal of more of the Government balances from the money market than is really necessary. The methods followed by Government in managing their Treasury balances and the reasons therefor are well known and need not be recapitulated here. But I am instructed to say that the reasons assigned for the creation of the system of Reserve Treasuries are not conclusive, and, in any event, the same result, so far as Government are concerned, could be obtained without adopting the policy referred to. The Directors suggest, for the earnest consideration of Government, the desirability of closing the Reserve Treasuries and reverting to the system of depositing the surplus Treasury balances with the Banks, imposing on the latter the condition that all the surplus balances thus deposited, that is, all Government funds in addition to those now placed with them, should not be employed in the Banks' ordinary business, but be held as cash in addition to the cash reserves which they now hold. The advantages of following this proposal would be that, while the Government could rely on their cash balances with as much confidence as they now do, and although it would not benefit the Banks or trade, it would have an important effect by bringing a large section of the monetary resources of the country into view in a more prominent way than is now the case, and would tend to attract foreign capital more powerfully when rates of interest are favourable. The Directors regard it as unfortunate that the whole of the monetary resources of India are not represented through the medium of the Banks established in the country, as is the case in England and elsewhere. Apart from the currency note reserves, the Government surplus cash balances, and most of the cash resources of the bazars, do not enter into the composition of the balance sheet of any Bank. Competent authorities point to the division of the bullion reserve in the Bank of England into two parts for a principal reason for the more numerous fluctuations in the rates of interest and discount in England than occurs in France or Germany, where the note reserves are not separated from the ordinary banking reserves. In England both reserves are held by one institution, and yet a serious disadvantage appears to be experienced. How much greater, therefore, must the disadvantage be in India where the different reserves of the country are scattered as they are, and to which must be added the additional disadvantage of an isolated and distant position from the great money markets of Europe! It is a slow process to get the monied classes in India outside of the large cities to become depositors with the Banks. But the Directors have no hesitation in recommending that the Government surplus balances should be dealt with in a way more in keeping with the practice in England by depositing them with the three Presidency Banks, even if it should be with the condition that all fresh deposits are not to be used in the Banks' ordinary business. Still another important result would be, if the proposal was properly carried out, to lessen the great fluctuations in the cash reserves of the Bank. As is well known, the cash balances of the Banks usually fall to their lowest point at the time the Government balances are rising, and *vice versa*. A combination of the two would, therefore, tend to prevent the severe fluctuations which take place under the existing conditions. Much of the criticism in England, which has been directed at the Presidency

Banks, seems to the Directors to have originated from mistaken ideas caused by omitting to take into account the monetary position in India outside the sphere of the Banks

The Directors are further of opinion that, in pursuance of the resolution of Government to place at the disposal of trade during a portion of the year a part of their surplus balances, when available, the money should be offered to the Banks. At present the market has no means of knowing whether any Government funds are available or not, with the result that there is unwillingness to apply for accommodation unless the pressure is extreme and cannot be met otherwise. The Directors, therefore, respectfully suggest that Government should intimate publicly or to the Banks that funds are available, giving particulars of the amount and the period for which it can be obtained.

Lastly, the Directors suggest that the method of effecting the Government remittances to England by the sale in London of Council Bills should be changed and the remittances be carried out from this side through the Presidency Banks. They consider that the evidence on the point given before the late Currency Committee strongly supports them in making this suggestion. Council Bill sales meet the requirements of the export trade chiefly, although in the opinion of the Directors it would be more effectively met if their recommendation was carried out. They are, however, more concerned with and interested in the internal trade, and experience shows that that trade is assisted by the release of Government funds through the sale of Council Bills only in a tardy and circuitous manner. If the remittances are initiated in India, the money would be released for the benefit of local trade far more expeditiously than under the existing system.

The points upon which the Directors lay most stress for effecting an improvement in the general monetary situation in India are —

- (a) The concession to the Banks of borrowing powers in the United Kingdom with the necessary authority to remit to and from India
- (b) The deposit with the Banks of the Government cash balances as far as possible, the surplus balances being merely held in custody as above explained, except when expressly made available for trade purposes by Government
- (c) The offer by Government of their surplus funds for the use of the market whenever available
- (d) The Government Home remittances to be effected through the Presidency Banks

Enclosure No 4.

Dated the 2nd April 1901

From G D Ker, Esq, Secretary and Treasurer, Bank of Madras,  
to the Secretary to the Government of India, Finance and Commerce  
Department

I have the honour to acknowledge receipt of your letter, No 474A, of 28th January 1901, intimating that the Government of India have still under their consideration the question of the establishment of a Central Bank, on which question it is anticipated that the Government of India will shortly be able to make definite proposals to the Secretary of State.

I am desirous by my directors to say that they will give respectful consideration to any proposals which may be submitted to them by Government in this connection.

2. Your letter further intimates that the question of increasing the general banking facilities by extending the operations of the Presidency Banks has also been considered, and that the Government of India thinks that the discussion has now reached a stage at which the formulating of a definite programme by the Banks is desirable.

A statement is annexed to your letter in which a summary is given of the requests that have already been preferred by the Banks, and of some of the objections which have been raised thereto, and it is suggested

that the Directors should point out how such objections (or others of like nature) might, in their opinion, be satisfactorily met. My Directors will therefore reply to these questions *seriatim*.

### 3. *Permission to borrow in the United Kingdom*

- (a) The first objection raised to this proposal is that it would involve the Banks in dealing in foreign exchanges, which is not banking, but speculative commercial business.

My Directors submit that this is an altogether fallacious view. The British sovereign is now legal tender in India, and it is not understood how borrowing in the legal tender coin of the country can possibly be interpreted as dealings in foreign exchanges, or as speculative commercial business.

The fluctuations in the rate of exchange between India and London are now fixed within well-defined limits, and, as has already been pointed out in this Bank's letter of 13th November 1899, it is now an easy matter to avoid any exchange risk by fixing the rate both ways at the time a transaction is entered into.

My Directors, therefore, submit that this objection has no force, and that the borrowing of money, as indicated, is a legitimate banking transaction.

- (b) The second objection raised is that the concession of creating a foreign agency in England, such as would be the result of entering into loan transactions of the nature of those now contemplated, would admit of the Banks locking up a large portion of their capital at so great a distance as to render it practically unavailable in the case of any emergency arising in India.

My Directors are at a loss to understand this objection, which they respectfully submit is entirely irrelevant.

The Banks have not asked for power to lend money in the United Kingdom, but to borrow money, and money borrowed so far from being a lock-up of capital in England would supply fresh capital for the requirements of trade in this country.

With regard to the creating of a foreign agency in England, my Directors desire to state that they have no intention of disturbing existing arrangements, whereby the Bank of England performs this Bank's agency business in that country.

- (c) The third objection raised is that the position of the Banks should be strengthened by an increase of capital before they can safely be allowed to resort to the London market.

In the absence of any reasons in support of this objection, my Directors can only say that the present Capital of the Bank of Madras is ample for present requirements, and that it would not be in the interests of the shareholders to further increase the Capital under existing conditions.

My Directors do not consider that there is any risk in giving the Banks power to borrow in London, and they cannot, therefore, see the force of the remark that an increase of Capital is necessary before the Banks can *safely* be allowed this concession.

- (d) Nor can my Directors understand the objection that while access to London might be given to one amalgamated Bank, it could not be given conveniently to three separate Banks.

If a final resort be necessary (and the necessity for this has been admitted on all sides), it seems to my Directors that the question should be dealt with on its merits, apart altogether from the question of amalgamation.

- (e) Precautions to be taken to prevent undesirable influences affecting the sale of Council Bills.

It is not clear to my Directors how permission to the Presidency Banks to borrow in London can prejudicially affect the sale of Council Bills. When money is borrowed, it would probably as a rule be remitted to India by means of Council Bills or Telegraph Transfers, and when repayment is made Bills of Exchange or Transfers would be purchased by the Banks on this side for a similar amount, so that on balance the total sales of Council Bills would be unaffected.

\* \* \* \* \*

5 *Extension of the period for making advances to six months.*

It is remarked that the class of advances on which extension might be admitted would require to be defined

This is hardly practicable, for each case would have to be considered on its merits, but as an instance in point, I am desired to say that advances made for the purchase of coffee, which has to undergo a process of curing, &c, before shipment, can often not be repaid within four or five months, and the Bank has accordingly to grant renewals of the three months' bills now discounted for this business. It is to obviate the necessity for such renewals that power is asked to discount bills up to a maximum of six months

6 *Increase of the limit for overdrafts without security from Rs. 2,000 to Rs 5,000*

My Directors submit that it is anomalous that, while the Bank has power to advance on two approved names up to a limit of Rs 5,00,000 (*vide* Byelaw No 1), it should not be permitted to advance, without security more than Rs 2,000 to a constituent, however wealthy he may be. This disability has hampered the Bank considerably and has led to the loss of much good business

My Directors would like to see this section eliminated from the Act altogether, and made the subject of a byelaw, as in the case of advances on two approved names

7. *Right to loans, either from the Reserve Treasury or from the Paper Currency Reserve, at the current rates for demand loans on Government paper*

*Objection raised*—Danger of depleting Government balances.

My Directors recognise that no definite undertaking can be given to the Banks, and would be satisfied with an assurance that assistance will be granted from either of these sources when convenient to Government, provided the final resort to the London market is open to the Banks.

As regards the rate of interest to be charged on such advances, my Directors respectfully submit that it should not be higher than 2 per cent below the Banks' minimum rate for the time being, which would be a considerably higher rate than that at which the Banks could borrow in the London market under ordinary circumstances, and would leave no more than a fair margin of profit to the Banks

Enclosure No 5

Dated the 18th April 1901

From W. D. Cruickshank, Esq., Secretary and Treasurer, Bank of Bengal,  
to the Secretary to the Government of India, Finance and Commerce  
Department

In continuation of my letter of 9th ultimo, I am desired by the Directors of the Bank to submit, for the consideration of the Government of India, the following suggestions for the amendment of the Presidency Banks Act —

CHAPTER III.

CAPITAL

Section 13 — "*The proprietors and shareholders of the Bank may from time to time by special resolution, and with the previous sanction of the Governor-General in Council, increase or reduce the capital of the Bank.*"

Section 14. — "*Provided that the capital shall not exceed, in the case of the Bank of Bengal, thirty millions of rupees*"

My Directors consider this proviso to be unnecessary, and suggest that it should be struck out. It is true that the previous Act, No. IV. of 1862, by section 6 placed a limit on the Bank's capital, but when, in 1876, the Government decided to withdraw from the direction of the Bank and to sell their shares, the relations between the Bank and Government were modified,



and as regards banking business, the responsibility of the Bank to the Government became the same as the ordinary one of a banker to his customer.

My Directors think that the shareholders ought to have power to increase the Bank's capital whenever and to whatever extent they may consider it desirable. They have no thought of reducing the capital.

*Power to take over Capital and Business of any other Bank*

The power of taking over the capital and business of any other Bank in India, which was expressly conferred on the Bank by section 37 of Act IV of 1862, should be restored. No explanation of the repeal of the section appears to have been placed on record. In extending the Bank's operations in fields where Banks already exist, it might be found advantageous to enter into arrangements which are not expressly sanctioned by the present Act.

Section 37 of Act IV of 1862 was as follows —

“It shall be lawful for the Directors of the said Bank, from time to time, to enter into negotiations for and to purchase and take over the capital, assets, and business of any other Bank within Her Majesty's Indian territories, of which the capital is divided into shares, and to grant and allot to the shareholders or proprietors in such Bank in full of their respective right, title, and interest in such capital, assets, and business, a sufficient number of shares in the capital stock of the said Bank of Bengal (which number shall be determined by the Directors), and for that purpose to increase the capital stock of the said Bank by the issue of such number of shares as may be so determined on. The shareholders or proprietors of the purchased Bank to whom such new shares shall be allotted shall be proprietors of the Bank of Bengal, and be in all respects in the same position as if they had respectively subscribed and paid for the shares so allotted to them. Provided always that the business so purchased shall, after the purchase be carried on by the said Bank of Bengal, with and subject to the several restrictions contained in this Act.”

## CHAPTER VIII

### BUSINESS.

#### Sections 36 (a) (6)

*Section 36 —The Bank is authorised to carry on and transact the several kinds of business hereinafter specified (that is to say) —*

- (a) “*The advancing and lending money, and opening cash credits, upon the security of*”—(6) “*accepted bills of exchange and promissory notes endorsed by the payees*”

Loans on accepted bills of exchange and promissory notes endorsed by the payees are alone authorised.

The intention apparently is to secure the liability of two persons on the same document as principal and surety, and yet it is not clear why the Bank should not advance on the joint and several promissory note of two persons unconnected in business and without recognising one as a surety for the other.

The National Bank of Egypt has been constituted within the last three years under the approval of the Egyptian Government. They are a Bank of Issue, and their Board of Administration and London Committee are subject to the approval of the Government. Their constitution has been carefully safeguarded so as to exclude operations in land or immoveable property, while they are authorised to undertake all commercial and financial operations in Egypt, and yet no restriction as to the form of promissory notes to be accepted as security for advance is enjoined, on the contrary,

the Bank are expressly authorised to open accounts current by way of overdraft for persons established in Egypt, whose credit is well known, provided the account be liquidated within six months

The Directors urge that similar powers may reasonably be conferred on the Presidency Banks

*Section 37 (d), Byelaw 1*

*Section 37 (d) —“ Nor shall they [except upon the security mentioned in section 36, paragraph (a), Nos (1) to (5), inclusive] discount bills for any individual or partnership firm for an amount exceeding in the whole at any one time such sum as may be prescribed by the byelaws for the time being in force, or lend or advance in any way to any individual or partnership firm an amount exceeding in the whole at any one time such sum as may be so prescribed ”*

*Byelaw 1 —“ Except upon the security mentioned in section 36, paragraph (a), Nos (1) to (5) inclusive, of the Presidency Banks Act, 1873, the Directors shall not—*

*“ discount bills for any individual or partnership firm for any amount exceeding in the whole at any one time the sum of Rs 6,00,000 ,*

*“ or lend or advance in any way to any individual or partnership firm an amount exceeding in the whole at any one time the sum of Rs 6,00,000 ”*

The right to advance up to six lakhs of rupees should, in the opinion of my Directors, be made clearly irrespective of the liabilities of the borrowers to the Bank through the transactions of third parties. For example, A, B being acceptors of bills discounted by C, D, E, F, and others, for six lakhs of rupees should not be ineligible for a loan or discount on his own account.

The Bank have been advised that this is so, but, having regard to the above section of the Act and byelaw, the right to make the advance in such cases might be placed beyond question.

*Loans to Native Princes.*

Loans to Native Princes are forbidden by the Statute 37, Geo III, Chapter 142, Section 23, unless made with the sanction of the Government of India. The undoubted object of the Statute was to prevent usury and extortion being practised upon Native Princes, and was never intended to affect *bonâ fide* transactions with a Bank, but the terms of the section are very wide and they are of a penal nature. In your letter No 5162-A, dated Simla, 12th October 1894, you informed the Bank that the Government of India had been advised that the provisions of the Statute do not apply to loans made by incorporated Banks, but as this advice is unsupported by any binding decision, the Act should either be repealed or declared inapplicable to transactions with the Presidency Banks.

*Loans to the Court of Wards*

Loans to the Court of Wards in respect of estates under their management might now be included in the list of authorised business. The management of such estates is now entirely under the control of responsible officers of Government of considerable experience, and all matters of importance are determined by the Commissioner or the Board of Revenue. Any application for a loan would have to be recommended by these high officials, and would only be entertained by the Bank on suitable conditions providing against an unreasonable lock-up of capital. That condition being fulfilled, the further condition of requiring the several responsibilities of two persons, as provided by section 37 (e) of the Presidency Banks Act, might be dispensed with in transactions of this description.

## Enclosure No 6

No 2265-A, dated the 28th April 1903

From R A Mant, Esq, Under Secretary to Government of India, Finance and Commerce Department, to the Secretary and Treasurer, (1) Bank of Bengal, (2) Bank of Bombay, (3) Bank of Madras

I am directed to refer to you <sup>(1) letters of the 9th March 1901 and 18th April 1901</sup> <sup>(2) letter of the 22nd March 1901</sup> <sup>(3) letter of the 2nd April 1901</sup>, in

which you submitted the views of the Directors of the Bank of India on the question of increasing the general banking facilities in India by extending the operations of the Presidency Banks. The various suggestions that have been put forward from time to time with this object were discussed informally in Calcutta in December last by a small committee on which the Bank of India was represented. The conclusions of the committee have now been considered by the Government of India, and a memorandum has been drawn up showing the proposals which the Government of India are disposed to recommend to the Secretary of State for the amendment of the Presidency Banks Act. A copy of this memorandum is enclosed.

2 The majority of these proposals are of long standing and have already been fully discussed, but some of them are new, notably the proposal to require the Banks to maintain a minimum proportion of cash to liabilities. Before addressing the Secretary of State, the Government of India will be glad to receive any further remarks which your Directors may desire to make on the subject.

*Proposals for the amendment of the Presidency Banks Act*

1 *Borrowing in London*—It is proposed to give the Banks the power to borrow in London when the bank rate in India rises above a certain point.

It is considered desirable to allow the Banks to have access to the London market at times when there is a real deficiency of loanable capital in India, and it is not intended to encourage resort to that market, as a speculative measure, in anticipation of such a deficiency. It is therefore proposed that borrowing in London should be allowed only when the Indian bank rate rises above a fixed limit. As at present advised, the Government of India consider that 7 or 8 per cent will be a suitable figure for this limit.

It is not considered desirable that the Banks should be drawn into general banking business in London. They will not therefore be allowed to receive deposits there, and their borrowing will be restricted to the amounts which they are able to bring out to India.

In order to prevent any possible clashing with the Government arrangements for remittances, it is proposed that the arrangements to be made by the Banks for the remittance of funds to or from London should be subject to the approval of the Comptroller General or of the Government of India.

II *Extension of the Banks' power to deal in securities*—It is proposed that the Banks should be allowed to deal in securities issued by State-aided railways or issued by District Boards with the sanction of the Government, and that the Bank of Madras should be allowed to deal in securities of the Government of Ceylon.

III *Extension of the period for making advances*—It is proposed that the period for which the Banks are authorised to make advances should be extended to six months, except in the case of advances against personal security.

IV *Increase of the limit for overdrafts*—It is proposed that the limit of Rs 2,000 set to overdrafts without security in section 37 of the Act should be raised to such sum not exceeding Rs 10,000 as may be fixed by byelaw.

V *Removal of the maximum limits of the Banks' Capital*—Section 13 of the Act provides that the capital of the Bank shall not be raised without the previous sanction of the Governor General in Council. It is considered unnecessary to limit the power of the Government in this respect, and it is therefore proposed to repeal the proviso to section 13, which fixes a maximum limit for the capital of each Bank.

VI. *Taking over the business of other Banks*—In times of crisis it might be an advantage to the public if the Presidency Banks were able to take over a small bank which might otherwise be compelled to close its doors. It is therefore proposed to empower the Banks to take over the business of any other bank with the previous sanction of the Government.

VII. *Advances on Joint Promissory Notes*—Under section 36, clause (a), sub-clause (6), the Banks are allowed to advance money on accepted bills of exchange or promissory notes endorsed by the payees, *i.e.*, practically on the security of two names. It is thought reasonable, therefore, that they should be allowed to make advances on the joint promissory note of two or more persons.

VIII. *Loans to Courts of Wards*—It is proposed to empower the Banks to grant such loans with the sanction of the Local Government for periods not exceeding six months.

IX. *Further control over the operations of the Banks*—Simultaneously with the grant of the facilities indicated above, it is thought necessary to impose certain restrictions on the general conduct of the Banks. Firstly, it is proposed to require their accounts to be audited by public accountants. It is not intended to revoke the power of selection possessed by the Banks under section 47 of the Act, but merely to limit the field of selection to public accountants.

Secondly, it is proposed to require the Banks to maintain their cash balances at a safe level, and to impose a penalty when the proportion which those balances bear to the Banks' liabilities falls below a fixed minimum percentage. The Government of India are inclined to think that the minimum should not be lower than 35 per cent. It may be found possible to draw a distinction between liabilities at call and less urgent liabilities, such as savings bank deposits, which are ordinarily of a permanent character, and fixed deposits which cannot be withdrawn without notice of three months or a longer period. Any suggestions which the Banks may desire to put forward for the modification of the minimum percentage in consideration of the fixity or permanent character of the deposits will be considered.

The form of penalty which commends itself to the Government of India is the payment of a fine to the Government at so much per cent. on the deficiency of the cash balances below the minimum percentage. It would be necessary to assess the fine on an ascending scale, as the deficiency increases in order to make it operative at times when money is in great demand. It has been suggested, therefore, that the penalty should be imposed at the following rates:—

- (a) When the ratio of cash to liabilities is below 35 per cent, but not below 30 per cent, at 1 per cent on the sum required to raise it to 35 per cent,
- (b) When the ratio is below 30 per cent., but not below 25 per cent, at 5 per cent on the sum required to raise it to 30 per cent and at 1 per cent on the further sum required to raise it to 35 per cent,
- (c) When the ratio is below 25 per cent, but not below 20 per cent, at 10 per cent on the sum required to raise it to 25 per cent, at 5 per cent on the sum required to raise it from 25 to 30 per cent, and at 1 per cent on the sum required to raise it further from 30 to 35 per cent, and so on.

The Government of India recognise that the depletion of the Banks' balances may occasionally be caused by the withdrawal of the Government deposits, over which the Banks have no control. The public deposits ordinarily exceed the minimum amount which the Government is required by agreement to leave with the Banks, and it is reasonable for the latter, in estimating their cash resources, to count on having the use of a larger sum of public money than they are entitled to under their agreements. The Government of India, therefore, propose to fix for each Bank a sum which the Bank may assume to be the normal minimum of the Government balances. If those balances fall below the sum so fixed, no penalty will be payable on the amount by which they are deficient, and the total sum on which the penalty is assessed will thus be reduced by the extent to which the deficiency in the Banks' cash balances is caused by the shrinkage of public deposits.

The following amounts have been suggested as the normal minima for the Government balances held by the Banks —

In the Bank of Bengal	-	150 lakhs	
„ „ Bombay	-	100 „	(including the Berar balances)
„ „ Madras	-	50 „	„ „ „ „

*Illustration.*—Suppose the liabilities of the Bank of Bengal to amount to 6 crores and the cash balances to 150 lakhs, the Government deposits being 130 lakhs. The amount required to raise the cash balances to 35 per cent of liabilities is 60 lakhs. Before assessing a penalty, 20 lakhs should be deducted on account of the shortage of the Government deposits. The deficiency to be penalized would thus be reduced to 40 lakhs, and the penalty would be assessed at 5 per cent on 10 lakhs plus 1 per cent on 30 lakhs.

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Enclosure No 7

No. 151, dated 19th July 1903.

From J Begbie, Esq, Secretary and Treasurer, Bank of Bombay, to the Under Secretary to the Government of India, Finance and Commerce Department

I have the honour to acknowledge receipt of your letter No 2265-A, dated 28th April last, forwarding a memorandum containing the proposals which the Government of India are disposed to recommend to the Secretary of State for the amendment of the Presidency Banks Act and inviting the Directors to offer any further remarks which they may desire to make on the subject

In reply I am instructed to address you as follows —

2 The Directors are pleased to learn that it is proposed to give the Banks power to borrow in London. They note that the power is not to include authority to receive deposits and that it will be operative only when the Indian Bank rate rises above a fixed limit which the Government of India consider should be 7 or 8 per cent, and also that the arrangements to be made by the Banks for the remittance of funds to or from London will be subject to the approval of the Comptroller-General or of the Government of India. The Directors have only to remark with respect to these limitations that in the interests of the trade of the country they think that the power should become operative as soon as the Bank rate rises to 6 per cent., also that the previous approval of the Comptroller General or the Government of India to the mode of remitting funds both ways will render the power to borrow cumbersome and uncertain, and that this sanction will not be obtainable with equal facility by the three Banks by reason of the distance of two of them from the sanctioning authority during the whole of the year. The Directors consequently consider that no such restrictions on the mode of remitting funds ought to be imposed. The term "Indian Bank rate" would, it is presumed, refer to the official rate of this Bank in the event of the Directors desiring to take advantage of the power to borrow in London.

3 The Directors have already expressed their opinion on proposals Nos II to IV of the memorandum and have no further remarks to offer thereon at present except that a doubt exists whether under Section 37 of the Presidency Banks Act the Bank can agree to allow an overdraft. The new section might therefore make it clear that the Bank may not only allow an overdraft but also agree to allow one. They have at present nothing to say regarding proposals No V to VIII inclusive.

4. With respect to the proposed further control over the operations of the Banks the Directors see considerable objections to the proposed requirement that the accounts should be audited by public accountants, because in India there is no recognised professional test of what is a Public Accountant, and so far as the Directors know there is only one firm in Bombay who could be properly so described.

5 With regard to the proposal to require the Banks to maintain their cash balances at a certain level and to impose a penalty when the proportion which those balances bear to the Bank's liabilities falls below a fixed minimum percentage, the Directors are advised that they have no authority on behalf of the shareholders in the Bank to assent to any such restriction being imposed on the Bank's present powers, and they entertain very strong objections to any such proposal. They would particularly object to the whole of their liabilities being treated alike in this matter and observe with pleasure that the Government of India recognises a distinction between liabilities at call and other liabilities of a permanent or fixed character.

6 The Directors beg to submit that it is the policy of this Bank to maintain a high percentage of cash to *call* liabilities and they consider that there is no necessity for imposing any minimum. Annexed hereto is a statement (A) showing the daily percentage of cash held against Government deposits and ordinary current deposit accounts since 1st January 1902. It will be seen therefrom that the reserve has rarely and only temporarily fallen below 40 per cent and that it is usually much higher, which, the Directors submit, is proof of careful and prudent working. In addition to the ordinary current deposits included in statement (A) the Bank has other demand liabilities to the public consisting of Savings Bank deposits. In statement (B), also annexed, the Bank's daily percentage of cash to Government deposits and all call liabilities to the public combined, also prepared since 1st January 1902, is shown. The Directors consider that from their nature the Savings Bank deposits may be safely employed to a far larger extent than other call liabilities, and bearing this in mind the Directors submit that here also the reserve held shows careful and prudent working. They rely on the figures given in statement (A), from which it is clear that the reserve is maintained at a high level in view of the character of the liabilities mentioned. Calls of any consequence on the cash balance can be made only from these liabilities, and it is against these alone that the percentage of cash held is important. The Directors are satisfied that, for all practical purposes, their reserve is much more than sufficient, and they desire to intimate that it is their intention to continue the mode of working indicated in statement (A), and, if need be, they are prepared to give any reasonable assurance to this effect. Thus they beg to offer in preference to the proposed legal limitation, and on the understanding that any arrangement of this kind is made applicable to each of the Presidency Banks.

7 There are also annexed statements (C) and (D) showing respectively the daily percentage since 1st January 1902 of the Bank's cash and investments in Government paper and other public securities held against (1) Government and other ordinary current deposits and (2) Government deposits and all call liabilities to the public, which show that these deposits are held in a highly liquid form to a very large extent.

8 The remaining liabilities of the Bank to the public consist of deposits *fixed* for various periods. Against these the Directors venture to maintain that it is not necessary to keep any cash reserve throughout their currency. All that is necessary is to be prepared to meet them at maturity. To show the arrangements usually made to meet these liabilities as they mature a statement (E) is enclosed showing the amount of such deposits falling due in each week from 4th May last to 25th instant, and against these the amounts of bills falling due and receivable each week. This statement is sent because it was the one in actual use at the time the letter under reply was received. For comparison a similar statement (F) from 6th instant to 31st October is annexed, being the statement in use at the date of this letter. It will be seen that if the deposits were not renewed or replaced by others, and it should therefore become necessary to pay the deposits in full as they matured from the Bank's resources, they could be met from the money due for bills receivable, and that usually there is a large margin of money receivable over money payable. The sums due on the bills would be collected and the money be paid to the depositors instead of being re-invested. If it were necessary, however, other investments could also be realised to meet the fixed deposits as they fall due. The Directors desire to explain that practically the only way in which this Bank can readily increase

its resources is by offering interest for deposits, and that during the past few years the Directors have made special efforts to collect deposits for fixed periods. By this means the Bank has been enabled to meet more fully the demands of the trading community for accommodation, and it may be fairly claimed that this action has contributed to the lower average rates of interest and discount which have ruled in recent years as compared with previous years. It would, however, be impossible to continue this policy of attracting fresh money on the one hand and lending to a larger extent on the other if it were necessary to maintain in cash 35 per cent of the deposits so attracted, or, indeed, any smaller percentage. When trade is active, high rates of interest have frequently to be paid for short fixed deposits. If these are invested in the purchase of trade bills (which is the usual practice) at a profit of one or two per cent per annum the Bank is satisfied, but if even a portion of this profit disappeared by reason of the Bank being required to hold a certain part of the deposits in cash, the business would become unprofitable, and on that account could not be entertained. In this connection the Directors deem it desirable to refer to the correspondence between the Government of India and the Bank ending with Government letter of 18th February last, and to explain that, in suggesting that deposits for two months should be excluded from the total liabilities in order to arrive at an accurate view of the Bank's position, the period of two months was taken, because that is the period for which the majority of short fixed deposits are offered in Bombay. The Directors have to explain further that they almost invariably invest such deposits in bills for two months, the majority of local or inland trade bills being also drawn at that currency. There is therefore in their opinion no need to retain any part of such deposits in cash. The principal additions to the resources of this Bank are likely to consist chiefly of Savings Bank deposits and deposits fixed for stated periods. A fixed percentage on all liabilities alike would therefore become more onerous as the deposits mentioned increased in proportion to all other deposits.

9 The Directors have endeavoured to show that it is necessary to keep a cash reserve against call liabilities only, and that as the Bank's reserve against call money is being maintained at a high level, the proposed limitation is not necessary. They desire further to point out, with all deference, that the proposal submitted will not add to the security of depositors, inasmuch as a minimum percentage will not be absolutely fixed. In their opinion the Bank's depositors are already amply protected by the limits put on the Bank's investments and by the frequent publication of the Bank's position, and in view of this and of the particulars given above as to the methods followed in connection with the maintenance of the cash reserve, they trust that Government will be pleased to withdraw the proposal.

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A  
BANK OF BOMBAY

Statement showing the Daily Percentage of Cash to Liabilities consisting of Government and Current Deposits in 1902  
(\* S " signifies Sunday and " H " Holiday )

Day of Month	Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec
1	H	48 94	50 24	57 26	49 13	S	42 75	50 30	61 30	69 13	H	66 68
2	53 00	S	S	54 08	47 18	47 91	43 61	51 31	61 91	69 01	S	69 41
3	55 44	60 49	46 60	48 94	49 32	48 50	42 56	S	61 93	68 27	65 59	70 73
4	52 22	46 31	50 02	54 77	S	48 87	44 41	50 86	62 01	67 66	65 77	70 37
5	S	47 19	49 54	55 26	49 35	47 82	45 35	52 55	H	S	67 97	70 16
6	52 90	45 87	51 11	S	47 32	47 81	S	53 58	62 41	67 80	69 32	67 46
7	53 78	46 27	53 57	53 78	47 79	47 80	46 34	54 72	S	67 20	70 20	S
8	51 37	43 10	H	53 75	47 50	S	49 30	56 88	62 21	66 18	71 95	68 21
9	54 25	S	S	53 90	47 66	46 40	49 73	H	63 25	66 28	S	69 28
10	54 22	38 94	54 70	50 78	46 97	47 62	50 50	S	63 71	66 92	71 49	69 56
11	54 16	38 47	51 92	50 44	S	47 69	49 28	56 31	63 33	H	71 67	70 84
12	S	37 52	54 53	51 04	47 66	47 39	49 53	56 38	65 38	S	72 19	72 28
13	49 19	33 02	51 75	S	47 55	47 72	S	56 30	H	65 16	72 41	73 84
14	47 09	48 23	50 32	50 67	47 09	50 42	51 01	58 37	S	65 29	74 00	S
15	44 52	46 27	49 08	46 55	47 21	S	50 22	58 56	H	64 58	73 29	74 02
16	41 68	S	S	H	47 50	50 84	51 58	60 08	64 95	63 23	74 63	74 52
17	48 05	45 05	51 12	47 45	46 90	50 94	50 46	S	65 55	65 83	72 24	74 32
18	42 88	49 09	52 49	45 62	S	50 65	51 22	H	65 98	67 50	72 23	74 41
19	S	40 64	54 45	H	H	50 86	53 50	61 21	65 98	S	71 97	73 76
20	44 78	42 72	58 63	S	48 99	50 85	S	61 80	H	67 15	72 07	76 39
21	44 88	40 85	57 25	44 54	45 60	51 69	52 96	63 14	S	67 95	72 43	S
22	47 32	45 52	55 39	48 20	44 34	S	63 47	63 50	66 54	69 25	72 75	73 18
23	49 48	S	S	47 96	42 17	51 61	61 56	64 57	68 44	69 93	S	72 10
24	49 99	45 57	H	47 47	H	51 48	52 10	S	69 30	69 36	71 62	H
25	50 84	50 13	55 57	49 62	S	52 32	51 29	64 53	68 71	69 44	72 47	H
26	S	48 56	54 65	48 74	41 61	H	52 19	H	68 84	S	72 32	H
27	50 00	48 23	54 62	S	41 31	50 75	S	66 02	68 93	69 13	71 66	70 88
28	47 73	47 67	H	59 14	38 61	52 62	52 38	66 29	S	70 60	72 28	S
29	50 00	—	H	57 36	41 45	S	52 06	60 31	68 73	68 28	72 46	68 51
30	47 77	—	S	51 39	H	42 65	50 33	61 27	69 76	65 84	S	68 08
31	48 46	—	H	—	48 41	—	49 57	S	—	H	—	H

Bank of Bombay,  
9th July 1903

A

Statement showing the Daily Percentage of Cash to Liabilities consisting of Government and Current Deposits in 1903  
(\* S " signifies Sunday and " H " Holiday )

Day of Month	Jan	Feb	March	April	May	June	July	Aug.	Sept	Oct	Nov	Dec.
1	H	S	S	62 43	45 37	49 74						
2	H	59 88	53 63	63 76	50 66	54 97						
3	69 08	59 99	58 63	63 22	S	47 80						
4	S	62 37	60 37	61 30	46 49	46 86						
5	69 39	62 39	53 93	S	45 61	53 98						
6	70 21	63 43	59 14	H	43 04	54 69						
7	69 03	63 22	60 40	58 27	44 34	S						
8	68 33	S	S	53 74	43 22	57 15						
9	67 79	63 62	61 63	H	47 61	57 73						
10	67 74	63 79	60 84	H	S	59 85						
11	S	64 37	59 34	H	46 27	60 87						
12	66 60	59 94	57 16	S	47 61	62 19						
13	64 02	58 63	H	H	49 15	62 73						
14	64 85	59 70	61 70	54 71	49 62	S						
15	64 01	S	S	55 06	50 69	61 20						
16	63 93	57 62	61 55	63 90	47 47	61 06						
17	67 47	61 14	60 98	64 06	S	60 53						
18	S	58 97	61 60	52 41	44 93	61 31						
19	64 37	59 79	61 07	S	47 03	60 38						
20	65 32	58 48	60 57	53 16	47 30	56 63						
21	65 14	56 87	H	53 40	47 55	S						
22	64 71	S	S	53 17	46 60	57 39						
23	67 02	57 43	59 40	49 51	61 55	58 05						
24	67 62	58 56	63 77	49 78	S	57 77						
25	S	H	64 65	50 66	51 84	58 74						
26	65 94	58 57	66 23	S	55 08	H						
27	65 18	56 07	63 83	47 49	55 28	58 08						
28	65 39	56 33	63 49	46 33	54 67	S						
29	64 90	—	S	45 94	56 19	60 45						
30	65 12	—	63 50	44 93	61 66	65 10						
31	65 75	—	63 00	—	S	—						

Bank of Bombay,  
9th July 1903



## B

## BANK OF BOMBAY

Statement showing the Daily Percentage of Bank's Cash to Government and  
Current Deposits including Savings Bank Deposits in 1902  
("S" signifies Sunday and "H" Holiday)

Day of Month.	Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec
1	H	41 07	42 36	49 11	42 71	S	36 53	43 67	54 21	61 13	H	9 15
2	45 72	S	S	46 64	41 10	49 98	37 24	44 71	54 43	61 08	S	60 20
3	44 47	42 52	39 22	41 83	42 80	41 64	36 30	S	54 84	60 70	56 74	61 46
4	44 87	39 08	42 69	47 72	S	41 98	37 90	44 36	54 89	59 61	57 14	61 01
5	S	39 87	41 93	47 88	42 96	40 98	38 65	46 04	H	S	59 10	60 77
6	47 19	38 67	43 51	S	40 94	49 89	S	46 94	55 17	59 91	60 34	58 40
7	45 67	39 32	45 83	46 40	41 46	40 81	39 40	47 98	S	59 34	61 11	S
8	41 99	36 51	H	46 55	41 14	S	42 08	49 87	55 06	58 39	62 42	58 91
9	46 81	S	S	46 78	41 18	39 58	42 48	H	56 05	58 42	S	59 93
10	46 61	42 92	46 74	43 79	40 60	40 70	43 20	S	56 39	58 98	62 00	60 16
11	46 98	32 55	45 94	43 44	S	40 68	42 60	49 48	56 39	H	62 36	61 77
12	S	31 96	46 45	44 63	41 24	40 78	42 39	50 15	57 70	S	62 78	62 89
14	41 62	31 96	44 44	S	41 14	40 57	S	49 98	H	57 51	62 89	64 22
14	39 81	38 02	43 26	43 86	40 76	42 98	43 80	50 09	S	57 60	64 43	S
15	37 48	38 56	41 44	40 07	40 98	S	43 09	51 77	H	56 79	63 81	64 34
16	35 02	S	S	H	41 29	40 30	44 35	53 05	57 58	57 41	S	64 69
17	36 13	38 39	43 44	40 71	40 73	43 35	43 18	S	58 18	57 86	62 88	64 32
18	31 00	36 77	44 63	39 14	S	43 19	43 98	H	58 54	59 37	62 89	64 90
19	S	34 32	46 32	H	H	43 45	46 08	54 18	58 50	S	62 74	63 41
20	37 52	36 05	50 03	S	40 88	43 24	S	54 75	H	59 01	62 82	66 09
21	37 43	34 67	49 84	36 03	39 56	44 12	45 74	55 91	S	59 78	63 20	S
22	39 86	39 05	47 34	41 22	38 99	S	46 20	56 23	58 94	60 87	63 59	62 82
23	41 64	S	S	40 79	36 22	44 19	44 83	67 19	60 71	60 66	S	61 54
24	42 35	42 28	H	40 21	H	44 02	45 36	S	61 47	60 88	62 28	H
25	42 95	42 71	47 36	42 11	S	44 92	44 76	57 15	60 93	60 89	62 99	H
26	S	41 21	46 24	41 47	35 78	H	45 61	H	61 07	S	63 03	H
27	42 21	40 38	46 08	S	35 63	43 05	S	58 57	60 83	60 49	62 21	60 78
28	40 16	40 24	H	50 90	33 15	44 87	45 82	58 68	S	61 01	62 93	S
29	42 10	—	H	49 41	35 58	S	45 09	53 29	60 67	58 85	62 71	58 76
30	40 09	—	S	44 75	H	36 52	44 58	54 21	61 66	56 73	S	57 94
31	40 73	—	H	—	41 44	—	43 23	S	—	H	—	H

Bank of Bombay,  
9th July 1903.

## B

Statement showing the Daily Percentage of Bank's Cash to Government and  
Current Deposits, including Savings Bank Deposits in 1903  
("S" signifies Sunday and "H" Holiday)

Day of Month	Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec.
1	H	S	S	52 64	37 37	40 19						
2	H	48 72	42 53	53 87	41 51	43 51						
3	58 69	49 30	47 93	53 13	S	33 44						
4	S	52 34	50 36	51 57	37 95	37 64						
5	58 41	52 28	48 59	S	37 48	43 90						
6	59 25	52 97	48 94	H	35 49	44 26						
7	58 26	52 60	50 30	48 77	37 05	S						
8	37 49	S	S	43 56	36 06	45 90						
9	56 56	52 00	51 28	H	39 27	46 35						
10	56 76	53 06	50 27	H	S	48 42						
11	S	53 72	49 19	H	38 10	49 35						
12	56 13	48 70	47 71	S	39 19	50 04						
13	53 85	47 39	H	H	40 49	50 35						
14	54 58	48 65	51 91	45 72	40 81	S						
15	53 90	S	S	46 06	41 95	49 22						
16	53 45	46 50	51 86	45 33	38 77	49 08						
17	56 40	49 27	51 48	45 28	S	48 23						
18	S	47 73	52 26	45 64	36 53	49 03						
19	53 85	48 76	51 83	S	38 22	48 21						
20	54 42	47 40	51 49	43 44	33 27	45 66						
21	54 26	45 95	H	44 62	35 26	S						
22	54 16	S	S	43 47	37 47	45 94						
23	56 44	46 38	50 41	40 99	41 66	46 77						
24	56 89	47 38	54 28	41 04	S	46 71						
25	S	H	55 14	41 66	41 59	47 49						
26	55 3	47 17	56 50	S	44 28	H						
27	54 62	45 18	54 40	39 32	44 72	46 77						
28	54 83	45 37	53 95	38 20	44 08	S						
29	54 25	—	S	37 85	45 19	48 80						
30	53 91	—	52 91	37 12	41 67	52 51						
31	54 27	—	52 47	—	S	—						

Bank of Bombay,  
9th July 1903

C

BANK OF BOMBAY

Statement showing the Daily Percentage of Cash and Public Securities to Liabilities consisting of Government and Current Deposits in 1902

("S" signifies Sunday and "H" Holiday)

Day of Month	Jan	Feb	March	April	May	June	July	Aug	Sept.	Oct	Nov	Dec
1	H	82 19	76 15	82 46	77 96	S	73 13	73 91	87 57	94 55	H	97 98
2	92 21	S	S	79 09	75 51	73 49	74 03	76 02	88 10	94 19	S	98 24
3	94 74	82 55	76 78	74 60	76 06	73 26	73 08	S	88 06	93 82	98 97	99 32
4	95 59	82 60	77 40	73 23	S	76 72	74 80	75 32	87 91	91 57	93 01	98 79
5	S	82 68	78 30	79 74	75 45	74 11	73 85	76 10	H	S	94 67	99 05
6	87 45	81 81	78 69	S	74 58	72 89	S	76 79	88 18	91 51	95 86	96 36
7	83 26	80 04	80 42	80 86	74 30	73 80	72 63	77 14	S	90 52	96 47	S
8	84 26	77 50	H	80 22	74 32	S	74 91	79 20	87 75	89 61	99 46	97 27
9	84 59	S	S	81 47	76 69	72 07	75 06	H	88 42	89 94	S	98 10
10	85 32	73 62	81 53	78 06	75 90	72 93	75 48	S	89 08	89 59	98 97	98 40
11	82 81	71 62	81 21	77 91	S	72 98	78 78	78 93	89 59	H	98 46	99 06
12	S	71 77	81 62	77 73	76 45	73 53	80 86	80 45	91 11	S	98 98	99 68
13	80 88	71 98	77 58	S	76 07	73 64	S	80 32	H	88 33	99 50	100 24
14	79 14	79 53	78 05	76 91	75 23	75 96	80 66	80 16	S	88 48	100 60	S
15	76 67	78 83	77 44	73 90	75 13	S	79 94	80 65	H	88 43	99 87	100 50
16	78 15	S	S	H	75 18	76 66	81 25	82 29	90 10	88 86	S	100 05
17	77 70	71 91	78 63	75 53	74 95	76 80	81 13	S	90 01	89 75	98 82	100 48
18	79 84	69 53	79 86	73 63	S	76 18	81 29	H	90 18	91 23	98 70	100 85
19	S	68 88	81 41	H	H	76 07	83 71	82 95	90 79	S	98 13	100 10
20	82 07	70 30	85 03	S	74 92	76 73	S	83 26	H	91 04	98 47	102 41
21	81 57	67 43	83 61	73 49	74 28	77 27	82 45	84 77	S	91 49	98 88	S
22	81 38	68 98	81 38	76 60	73 34	S	82 81	85 08	91 65	92 76	98 74	100 75
23	81 12	S	S	75 92	72 51	76 17	83 40	86 03	93 16	92 82	S	100 71
24	82 47	73 89	H	76 91	H	76 34	82 91	S	93 50	93 01	98 18	H
25	81 30	74 53	82 32	76 98	S	76 37	81 50	86 50	93 36	93 41	99 07	H
26	S	73 53	82 39	76 13	72 30	H	81 93	H	93 40	S	98 95	H
27	80 07	73 36	82 72	S	70 90	74 84	S	87 59	92 66	93 45	98 36	98 57
28	82 02	73 41	H	84 03	69 16	75 83	81 89	88 09	S	97 29	98 50	S
29	80 45	—	H	82 18	69 10	S	80 87	88 27	92 42	97 63	99 76	96 16
30	80 69	—	S	80 05	H	72 21	78 77	87 64	94 92	95 22	S	96 46
31	81 43	—	H	—	76 44	—	74 19	S	—	H	—	H

Bank of Bombay,  
9th July 1903

C

Statement showing the Daily Percentage of Cash and Public Securities to Liabilities consisting of Government and Current Deposits in 1903

("S" signifies Sunday and "H" Holiday)

Day of Month	Jan	Feb	March	April	May	June	July	Aug	Sept	Oct.	Nov	Dec
1	H	S	S	85 27	73 89	80 75						
2	H	90 65	82 62	86 13	79 17	89 95						
3	97 24	91 33	85 69	87 62	S	79 91						
4	S	91 94	86 11	85 43	74 78	79 29						
5	95 73	92 14	86 03	S	72 73	83 64						
6	95 97	91 93	84 98	H	69 61	85 17						
7	94 75	69 57	85 27	83 23	71 04	S						
8	94 24	S	S	79 75	70 97	88 91						
9	94 13	89 29	86 15	H	73 89	89 91						
10	94 70	90 05	86 71	H	S	91 37						
11	S	91 65	85 14	H	72 32	92 22						
12	93 64	89 72	81 93	S	74 23	94 90						
13	90 31	89 20	H	H	75 61	95 77						
14	91 04	89 12	85 28	79 96	76 21	S						
15	89 88	S	S	80 15	76 31	94 48						
16	90 63	88 55	84 61	78 01	75 04	94 42						
17	91 42	92 18	88 77	78 68	S	95 34						
18	S	89 34	89 72	77 91	73 19	96 36						
19	94 31	83 91	83 23	S	73 47	95 39						
20	92 72	83 34	83 53	77 63	76 15	90 36						
21	92 21	87 41	H	75 04	77 16	S						
22	91 13	S	S	77 15	76 23	92 54						
23	92 38	88 40	81 47	75 39	80 40	92 01						
24	94 10	88 36	85 37	73 51	S	91 06						
25	S	H	85 94	74 71	80 91	92 02						
26	91 73	89 48	87 43	S	84 78	H						
27	91 30	86 84	84 93	73 29	84 05	91 99						
28	91 18	87 06	84 97	75 61	83 89	S						
29	91 40	—	S	75 31	85 96	93 86						
30	93 11	—	84 32	79 98	80 92	99 05						
31	94 16	—	84 36	—	S	—						

Bank of Bombay,  
9th July 1903.

## D.

## BANK OF BOMBAY.

Statement showing the Daily Percentage of Cash and Public Securities to Liabilities consisting of Government and Current Deposits, including Savings Bank Deposits in 1902

("S" signifies Sunday and "H" Holiday.)

Day of Month	Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec
1	H	69 31	64 20	70 72	67 77	S	62 48	64 17	77 47	83 59	H	84 40
2	79 81	S	S	68 23	65 08	62 81	63 25	66 21	77 94	83 36	S	85 21
3	81 51	69 80	64 64	64 14	66 00	62 89	62 37	S	77 97	83 11	81 30	86 24
4	81 75	69 85	66 05	68 15	S	63 32	63 83	65 68	77 83	80 65	80 81	85 35
5	S	S	66 27	69 10	65 68	62 84	62 95	65 68	H	S	82 62	85 79
6	74 37	68 96	67 00	S	64 52	62 34	S	67 26	77 95	80 49	83 43	83 60
7	71 38	68 01	68 80	69 76	64 47	62 57	61 62	67 70	S	79 93	83 97	S
8	72 79	65 65	H	69 46	64 37	S	63 91	69 46	77 66	79 07	86 31	84 02
9	72 80	S	S	70 70	66 26	61 48	64 12	H	78 35	79 27	S	84 87
10	73 16	62 24	69 67	67 31	65 60	62 94	64 57	S	78 83	78 96	85 83	86 10
11	70 15	60 33	69 19	67 10	S	62 25	68 11	69 12	79 12	H	85 66	85 92
12	S	60 48	69 53	67 32	66 15	62 42	69 00	70 82	80 41	S	86 08	86 73
13	68 46	60 52	66 62	S	65 82	62 58	S	70 68	H	78 00	86 04	87 19
14	66 73	66 77	66 45	66 57	65 21	64 87	69 26	70 67	S	78 06	87 59	S
15	64 52	65 69	65 48	63 61	65 22	S	68 59	71 29	H	77 75	85 11	87 37
16	65 63	S	S	H	65 35	65 24	69 86	72 66	79 72	78 22	S	87 18
17	65 32	61 27	66 81	64 80	65 10	65 35	69 44	S	79 89	78 87	84 18	86 96
18	66 99	59 33	67 90	63 19	S	64 95	69 75	H	80 00	80 24	85 94	87 15
19	S	58 17	69 35	H	H	64 99	72 02	73 42	80 50	S	85 73	86 93
20	69 81	59 33	72 56	S	65 18	65 24	S	73 76	H	80 00	85 82	88 61
21	67 61	57 22	71 34	62 75	64 44	65 95	71 20	75 06	S	80 48	86 04	S
22	68 90	59 17	69 56	65 54	63 56	S	71 55	75 35	81 09	81 54	86 19	86 48
23	68 80	S	S	64 57	62 45	65 19	72 48	76 24	82 64	81 52	S	86 97
24	69 70	68 02	H	64 34	H	65 28	72 19	S	83 06	81 63	85 84	H
25	68 80	63 48	70 12	65 33	S	65 99	71 13	76 69	82 78	81 92	86 09	H
26	S	62 45	69 72	64 83	62 18	H	71 61	H	82 86	S	85 72	H
27	67 45	62 18	69 79	S	61 01	63 48	S	77 72	81 77	81 79	85 43	84 50
28	69 13	61 67	H	72 35	59 38	64 66	71 61	78 04	S	84 84	85 74	S
29	67 62	—	H	70 79	59 53	S	70 81	78 00	81 57	84 15	86 34	82 43
30	67 91	—	S	69 72	H	61 84	69 08	77 53	83 89	82 03	S	82 07
31	68 43	—	H	—	65 44	—	64 69	H	—	H	—	H

Bank of Bombay,  
9th July 1903.

## D.

Statement showing the Daily Percentage of Cash and Public Securities to Liabilities consisting of Government and Current Deposits, including Savings Bank Deposits in 1903

("S" signifies Sunday and "H" Holiday)

Day of Month	Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec
1	H	S	S	71 91	60 86	65 25						
2	H	73 75	66 77	74 28	64 93	70 71						
3	82 70	75 06	70 05	73 63	S	64 26						
4	S	76 53	71 24	71 92	61 12	63 70						
5	80 60	76 60	70 94	S	59 77	68 04						
6	80 99	76 77	70 32	H	57 41	68 03						
7	79 97	74 53	71 01	69 67	58 88	S						
8	79 41	S	S	65 37	58 26	71 41						
9	79 27	74 14	71 99	H	60 96	72 19						
10	79 46	74 91	71 65	H	S	73 92						
11	S	75 91	70 58	H	59 96	74 82						
12	78 08	72 89	68 39	S	61 10	76 35						
13	76 99	72 10	H	H	62 29	76 88						
14	76 43	72 62	71 69	66 83	62 68	S						
15	76 69	S	S	67 05	63 16	75 99						
16	76 06	71 46	71 30	65 61	61 29	75 90						
17	78 93	74 29	70 72	65 90	S	75 97						
18	S	72 31	71 02	64 86	59 60	77 21						
19	77 33	72 51	70 64	S	61 26	76 56						
20	77 02	71 77	70 15	64 65	61 61	72 85						
21	76 90	70 62	H	65 21	62 08	S						
22	76 27	S	S	64 29	61 33	74 08						
23	77 80	71 34	69 13	62 43	64 98	74 13						
24	78 34	71 89	72 67	60 61	S	73 63						
25	S	H	73 30	61 44	65 39	74 40						
26	77 03	72 06	74 59	S	68 15	H						
27	76 50	69 98	72 39	60 69	67 99	74 08						
28	76 48	70 18	72 20	62 35	67 65	S						
29	76 49	—	S	62 06	69 13	75 77						
30	77 08	—	71 29	61 13	65 27	79 89						
31	77 71	—	70 75	—	S	—						

Bank of Bombay,  
9th July 1903.

## E.

## BANK OF BOMBAY

*Statement showing the Amount of Bills falling due Weekly from 4th May to 25th July 1903, and the Amount of Fixed Deposits maturing during the same periods*

Week ending	Bills falling due	Fixed Deposits maturing
9th May - - - - -	46,43,957	6,96,846
16th " - - - - -	45,44,209	14,53,905
23rd " - - - - -	37,25,132	8,60,071
30th " - - - - -	32,65,511	12,44,861
6th June - - - - -	32,44,194	11,00,973
13th " - - - - -	24,51,314	1,37,000
20th " - - - - -	19,01,500	17,61,748
27th " - - - - -	21,76,340	12,64,823
4th July - - - - -	13,46,820	11,22,280
11th " - - - - -	9,49,456	1,39,174
18th " - - - - -	11,00,400	80,700
25th " - - - - -	7,95,265	6,21,753

Bank of Bombay,  
9th July 1903

## F.

*Statement showing the Amount of Bills falling due Weekly from 6th July to 3rd October 1903, and the Amount of Fixed Deposits maturing during the same periods*

Week ending	Bills falling due	Fixed Deposits maturing
11th July - - - - -	27,32,427	5,02,397
18th " - - - - -	25,44,213	12,71,793
25th " - - - - -	21,40,584	13,98,193
1st August - - - - -	24,16,242	9,63,000
8th " - - - - -	35,19,400	6,48,957
15th " - - - - -	24,69,758	60,550
22nd " - - - - -	23,99,651	8,38,918
29th " - - - - -	14,05,377	1,80,416
5th September - - - - -	9,89,194	1,47,000
12th " - - - - -	1,82,229	6,41,646
19th " - - - - -	2,44,311	98,286
26th " - - - - -	2,75,800	18,000
3rd October - - - - -	3,32,800	2,01,916

Bank of Bombay,  
9th July 1903.

## Enclosure No 8

Dated 13th July 1903

From G D Ker, Esq., Secretary and Treasurer, Bank of Madras, to the Secretary to the Government of India, Finance and Commerce Department

I have the honour to acknowledge receipt of your letter No 2265-A, of 28th April 1903, enclosing a memorandum of the proposals which the Government of India are disposed to recommend to the Secretary of State for the amendment of the Presidency Banks Act, and stating that Government will be glad to receive any further remarks which my Directors may desire to make on the subject before addressing the Secretary of State

These proposals have received the careful consideration of my Directors, and I am desired to submit for the consideration of Government the following remarks thereon.

2 *Borrowing in London*—It is noted that Government propose to give the Banks power to borrow in London, when the Bank rate in India rises above a certain point (7 or 8 per cent), but that it is not intended to encourage resort to that market as a "speculative" measure, in anticipation of a deficiency of loanable capital on this side, and further that in order to prevent any possible clashing with the Government arrangements for remittances, the Bank's arrangements for remittance of funds to or from London should be subject to the approval of the Comptroller-General or of the Government of India

My Directors conceive that it is the desire of Government to deter the Presidency Banks from entering into exchange operations, and that it is therefore thought necessary to prohibit the Banks from borrowing in London until their resources on this side have run so low as to render such a course *immediately* necessary. I am to point out, however, that it is quite conceivable that early in the season circumstances may indicate that it is desirable for a Bank to strengthen its position, with a view to the near future, and my Directors submit that it is an unnecessary restriction to compel a Bank to wait until the matter becomes actually urgent, and when it will have to lay down its funds at a maximum cost

My Directors think it may be safely assumed that the Banks will not borrow and pay interest on such borrowed money unless there is need for so doing, and they submit that a Presidency Bank may be trusted to respect any restrictions on its operations which are laid down with regard to "speculative" importation of funds. Circumstances may, however, render it necessary (or desirable) to provide early in the season for the estimated requirements of the season. My Directors trust, therefore, that Government will see fit to modify its proposal in this sense

3 With regard to the possible clashing of the Bank's arrangements with Government arrangements for remittances, I am to say that my Directors cannot understand how any transactions which this Bank is likely to enter into can operate detrimentally to Government, but they are, of course, willing to abide by a *modus operandi* which has received the approval of the Comptroller-General or of the Government of India. It is most desirable, however, that some general rules approved by Government should be laid down and that a special reference on each occasion should not be necessary

4 With regard to the general question of borrowing in London, my Directors have not altered their views as to the importance of giving the Banks this power. They wish, however, to say that owing to the growing confidence in the fixity of exchange, money finds its way to India, when required, through so many other channels, and there is now in their opinion much less fear of a recurrence of a stringency in the Indian money market which was witnessed some years back. My Directors therefore anticipate that the occasions on which this Bank is likely to find it necessary to have recourse to the London market will not be frequent

5 II to IV.—My Directors have no further remarks to offer under these heads

6 V to VIII—My Directors approve of these proposals

7 IX—*Further control over the operations of the Banks*

It is observed that Government think it necessary to impose the following "restrictions on the general conduct of the Banks" —

(1) It is proposed "to require their accounts to be audited by Public Accountants

(2) It is proposed "to require the Banks to maintain their cash balances " at a safe level, and to impose a penalty when the proportion " which those balances bear to the Bank's liabilities falls below " a fixed minimum percentage "

8 With regard to No (1) my Directors have nothing to say

It is manifestly in the interests of the Bank to secure the best skill available in the auditing of the account

With regard to No (2) it is observed that the Government of India are inclined to think that the minimum should not be lower than 35 per cent, but that "it may be found possible to draw a distinction between liabilities " at call and less urgent liabilities, such as Savings Bank deposits which " are ordinarily of a permanent character, and fixed deposits which cannot " be withdrawn without notice of three months or a longer period," and the Banks are invited to put forward any suggestion for the modification of the minimum percentage in consideration of the fixity or permanent character of the deposits

10 Before dealing with these special points alluded to above, I am desired by my Directors to say that the question of what is a safe percentage of cash at any particular date is one which can only be satisfactorily decided by the management of a Bank, and my Directors respectfully deprecate any action on the part of Government which will interfere with the exercise of their discretion in so important a matter

11 It is of course the first and obvious duty of a Bank to maintain such a position of strength as will enable it to meet all reasonably possible calls, and so far as this Bank is concerned my Directors desire to state emphatically that there has never been any cause for anxiety as to its position

12 The position of a Bank is not to be gauged merely by the percentage of its cash balance to liabilities. There are many points to be considered, some of which can be known only to the management. At one time, for instance, with heavy balances belonging to Banks or other important accounts and a percentage of 40, the Bank might really be in a position no stronger than at another time when the percentage might be 30, but against deposits more largely of a stable nature

13 It would be exceedingly difficult, if not impossible without seriously affecting the earning power of this Bank, to maintain an arbitrary fixed minimum percentage, as is suggested, and any action on the part of Government enforcing such a condition would not only be harassing to the executive of the Bank, but would be detrimental to the interests of merchants and traders, inasmuch as it would undoubtedly have the effect of forcing up the rate of interest earlier, and perhaps higher, than would otherwise be necessary

14 My Directors will now refer to the question of Savings Bank and fixed deposits alluded to above and to Government deposits

With regard to Savings Banks deposits, the statement already furnished to Government shows that they are of a stable nature, and that the total has increased month by month since the Savings Bank was formed in 1898. At the same time these deposits are payable on demand, and thus being so, my Directors have always considered that a fair percentage of cash should be maintained against them.

15 Similarly Government deposits are payable on demand, and while my Directors think that they may reasonably expect to receive some short notice in the event of Government desiring to reduce the balance below the minimum set forth in the Bank's Agreement, they recognise that there is

no undertaking on the part of Government to give such notice, and the whole of the Government balance has always been treated as a demand deposit

16. Fixed deposits on the other hand are on a totally different basis. Payment cannot be demanded until the deposits mature, and there is therefore no necessity to hold cash against such deposits while they are running. It is of course necessary to finance so that the cash balance may be replenished from time to time in such a degree as to meet all fixed deposits as they mature.

17. Government are aware from the figures which have been furnished that a large proportion of the deposits of this Bank are fixed. In order to secure such deposits it is necessary to accept the great bulk of them for the whole year round, and when it is remembered that the busy season in this Presidency (when alone such deposits can be utilised) extends to a period of about 6 or 7 months only, it will be seen that the deposits are costly, and any obligation to maintain a percentage of cash against them would necessitate a reduction in the rate of interest allowed, with the inevitable results that the deposits would go elsewhere. The Exchange Banks are keen competitors for all local business and have the great advantage of being in the position to employ their funds elsewhere when not required in this Presidency. It is necessary to state this in order to demonstrate the serious consequences to this Bank of any action compelling it to treat fixed deposits in the same manner as demand deposits.

18. In its weekly Publication Statement the Bank of Madras shows the proportion of cash held against liabilities payable *on demand*, and my directors respectfully submit that this is the only fair way to indicate the position of a Bank whose deposits are largely fixed and which, therefore, cannot be presented for payment until known dates extending over 12 months or longer.

19. A reference to the attached Statement A will show that during the year 1902 the average percentage during the first half of the year was 40.55 and for the second half, 59.01. It will be observed that on only four occasions during the year did the percentage fall below 35 per cent and only once below 30 per cent (29.49), while the very large percentage maintained throughout the second half of the year demonstrates what has been pointed out in paragraph 17, viz., that owing to the course of business in the Madras Presidency this Bank is under the disability of having to pay interest all the year round on deposits which can be utilised for about six or seven months only.

During the half year ending 30th June 1903 it will be seen that the percentage has only twice fallen below 40, while the average for the half year has been 47.96. The nature of certain deposits has, in the opinion of my Directors, necessitated the holding of a larger percentage than was necessary during the first half of 1902 (*vide* paragraph 12).

20. My Directors also desire to invite the attention of Government to the attached Statement B, showing the percentage of cash in hand (and with the Bank of England) to liabilities of 19 leading British Banks in 1902. It will be seen from this statement that the cash held by these Banks is proportionally much less than that held by the Bank of Madras. I am to add that a reference to the Published Statements of these Banks and of the Bank of Madras will also show that the liquid assets of the latter compare favourably with similar assets held by the British Bank named.

21. In conclusion, I am to express the hope that the foregoing remarks will satisfy the Government of India that the Directors of this Bank clearly and fully recognise their responsibility in the matter of the Bank's cash balances, and that no action interfering with their discretion will be taken by Government which my Directors submit is not only unnecessary, but would be harassing to the management and may be attended with unfortunate results.

## A.

*Bank of Madras*

Date	Percentage of Cash to Liabilities payable on Demand.	Date	Percentage of Cash to Liabilities payable on Demand	Date	Percentage of Cash to Liabilities payable on Demand
1902		1902		1903	
January	11 51 43	July	5 47 81	January	3 61 31
"	18 49 32	"	12 48 81	"	10 65 49
"	25 51 40	"	19 51 37	"	17 67 10
February	1 48 61	"	26 50 91	"	24 62 85
"	8 43 15	August	2 54 74	"	31 60 93
"	15 40 44	"	9 55 93	February	7 56 92
"	22 37 57	"	16 57 12	"	14 47 36
March	1 35 53	"	23 57 77	"	21 47 94
"	8 38 81	"	30 59 13	"	28 44 21
"	15 39 55	September	6 58 49	March	7 47 36
"	22 32 44	"	13 57 54	"	14 43 23
"	29 31 68	"	20 58 15	"	21 42 19
April	5 29 49	"	27 60 71	"	28 45 31
"	12 35 01	October	4 57 70	April	4 46 55
"	19 32 85	"	11 56 65	"	11 43 73
"	26 37 05	"	18 58 17	"	18 45 89
May	3 35 58	"	25 59 15	"	25 47 83
"	10 39 60	November	1 58 26	May	2 45 97
"	17 38 94	"	8 60 21	"	9 43 05
"	24 39 64	"	15 63 43	"	16 45 24
"	31 41 42	"	22 68 62	"	23 43 91
June	7 38 28	"	29 69 25	"	30 40 28
"	14 43 03	December	6 68 23	June	6 36 58
"	21 45 46	"	13 67 07	"	13 36 03
"	28 48 31	"	20 65 70	"	20 41 22
"	30 49 88	"	27 61 59	"	27 41 03
"		"	31 60 92	"	30 45 52
Average -	40 55	Average -	59 01	Average -	47 96

## B

*List of 19 Leading British Banks, 1902.*

NAME OF BANK	Deposits.	Cash in Hand and at Bank of England	Proportion of Cash in Hand and at Bank of England to Deposits.
Child and Co - - - - -	£ 2,235,653	£ 355,077	15 88
Coutts and Co - - - - -	7,287,193	582,560	7 99
Glyn, Mills, Currie and Co - - - - -	14,085,592	1,846,492	13 11
London and Westminster Bank, Ltd. - - - - -	25,533,413	4,392,282	17 20
Robarts, Lubbock and Co - - - - -	3,334,256	834,962	25 04
Capital and Counties Bank, Ltd - - - - -	23,912,944	3,676,891	15 37
Lloyds Bank, Ltd - - - - -	52,463,423	9,008,410	17 17
London and County Bank, Ltd - - - - -	44,018,364	8,377,530	19 03
London and South-Western Bank, Ltd - - - - -	13,005,056	1,897,168	14 57
London, City and Midland Bank, Ltd - - - - -	46,747,797	9,871,449	21 11
London Joint Stock Bank, Ltd - - - - -	18,730,632	2,442,746	13 04
Manchester and Liverpool District Bank, Ltd - - - - -	16,289,761	2,161,399	13 27
Metropolitan Bank (of England and Wales), Ltd - - - - -	8,460,728	815,592	9 64
National Provincial Bank of England, Ltd - - - - -	50,948,783	7,407,065	14 54
Par's Bank, Ltd - - - - -	27,273,663	4,923,304	18 05
Union of London and Smith's Bank, Ltd - - - - -	25,646,752	5,265,018	20 53
Williams Deacon Bank, Ltd - - - - -	11,867,425	1,874,003	15 79
Bank of Ireland - - - - -	13,576,613	1,048,743	7 72
National Bank, Ltd - - - - -	12,723,008	1,683,309	13 23
Average - - - - -	418,141,056	68,464,000	16 37

The above figures are taken from the Banker's Magazine for May 1903.



## Enclosure No 9

Dated 4th August 1903.

From G D Ker, Esq, Secretary and Treasurer, Bank of Madras,  
to the Secretary to the Government of India, Finance and Commerce  
Department

My Directors understand that the Bank of Bengal has submitted, for the consideration of Government, a proposal whereby the Presidency Banks should be permitted to draw on London for the family remittance of customers up to a maximum of 2000 a month for any one person

2 I am desired by my Directors to say that they concur with the Bank of Bengal in thinking that this concession would be useful, and a convenience to the customers of the Banks, and they venture to hope that it will receive the favourable consideration of Government

## Enclosure No 10.

Dated 19th August 1903.

From W D Cruickshank, Esq, Secretary and Treasurer, Bank of Bengal,  
to the Secretary to the Government of India, Finance and Commerce  
Department

In continuation of my letter of the 7th May, I have now the honour to reply to your letter No 2265-A of the 28th April last, enclosing copy of a memorandum specifying the proposals which the Government of India are disposed to recommend to the Secretary of State for the amendment of the Presidency Banks Act, and inviting the Directors of the Bank of Bengal to offer any remarks they desire to make on the subject

2 The proposals are intended to increase the banking facilities in India by removing some of the restrictions placed upon the operations of the Presidency Banks, and I am desired by the Directors to tender their thanks to the Government of India for the steps they are prepared to take in this direction, and to say that the remarks they have to offer will be confined to suggestions made with the object of enabling the Banks the better to fulfil the duties and responsibilities that are imposed on them as the Central Banks in the Indian money market and thus carry out the object which Government have in view

3. In discussing the measures devised for the purpose of enlarging the powers of the Banks, it is desirable to bear in mind the special difficulties and disabilities under which the Presidency Banks labour when compared with the Central Banks of other countries. In the letter, dated 2nd December 1899, the Directors said that since 1st March 1862, when the Presidency Banks were deprived of their note issue, their readily expandable resources had been confined to their borrowing powers, and these had been rendered of little value owing to restrictions imposed by the State. They pointed out that India is a country of seasonal trade, involving great variations in the demands for accommodation, and that in order to meet these variations properly, and at the same time to maintain a moderate and steady rate of interest, elastic banking resources are required. They said that the pressing want was a provision for expanding resources at times of pressure which would tend to adjust the supply of loanable capital to the demand both during the busy and slack seasons, and they added that until this defect is remedied, the money markets of India will be liable to oscillate between periods of stringency and periods of plethora, and trade will be hampered by corresponding fluctuation in the rates of interest

4 Unfortunately the opportunities open to the Presidency Banks of enlarging their funds in emergencies are exceptionally limited, and their

resources are probably the most inelastic on which any large commerce is based. A bank-note issue, such as exists in the Colonies or in France and Germany, imparts elasticity in a high degree to the working capital of the issuing banks, but the Presidency Banks are not allowed to issue notes. Facilities for the prompt import and export of foreign capital aid in the expansion and contraction of the Central Banking Fund, but the Presidency Banks have hitherto been prohibited from importing foreign capital. When the State cash balances are deposited entirely with the Central Banks, demand and supply in the money market in connection with taxation are immediately adjusted. At the Bank of England the "Other Deposits" decrease in March, because Government demands are heavy at that time, whilst in July "Other Deposits" increase, because Government disbursements are large, but the money market is little affected on either occasion, because as long as the State balances are deposited solely in the Banks which hold the spare funds of the community, State payments and receipts can be effected by transfers without disturbing the money market to any great extent. In India this compensatory action, this elasticity of supply relatively to demand, is wanting, because the Government of India aim at keeping their deposits with the Banks at a low approximate level all the year round. The result is that when the State balances in the Reserve and other Treasuries outside the Banks run up, the deposits at the Banks run down, causing undesirable variations in the Presidency Banks' balances and rates of interest. This defect will be discussed more fully later on, but I am desired to state that the Directors of the Bank of Bengal much regret that the proposed legislative measures deal definitely with matters of minor importance only, while the one measure proposed with the object of enabling the Banks to increase their resources at times of pressure is hampered by conditions which make the process tardy and expensive. The concession to be granted is power to borrow in London. It is understood that, subject to adequate provision being maintained for the disbursements of the Government of India and for Council drawings, loans may be granted to the Presidency Banks from the Reserve Treasuries for fixed periods at high rates of interest, but the Banks have not been encouraged to look upon that source of supply as a reliable one under all circumstances, as a final resort for money should be, and it rarely suits them to borrow for a prolonged period at a high rate.

#### *I—Borrowing in London*

5. The proposal is that borrowing in London shall only be allowed when the Indian Bank rate rises above a fixed limit, 7 or 8 per cent. being suggested, and I am instructed to point out that in a country, such as India, where demands on the money market arise suddenly, it appears imprudent to prevent the Central Banks borrowing until pressure has arisen, especially as the Central Banks, as custodians of the general banking funds, are in the best position to feel and foresee the approach of pressure, and should therefore in the general interest be empowered to take timely measures to provide fresh supplies of money. For the first time since the withdrawal of their note issue in 1862, it is proposed to confer upon the Presidency Banks power to operate directly for this purpose, but if borrowing operations are to be postponed in the manner suggested, the Banks will be seriously hampered in making use of the concession.

6. It may be said that the delay is of little consequence, as prompt relief can generally be obtained by the medium of Council telegraphic transfers; but this is an expensive form of remittance, and as at times of pressure sterling exchange is usually at its maximum, the Presidency Banks, if obliged to buy transfers, will be condemned not only to import funds at a high level, but in an expensive form. They will be doubly handicapped; and, if the pressure in India is short lived, the loss to the Presidency Banks will be heavy, as the interest earned would be small and the exchange loss on the return of the funds to London considerable. Under the existing Currency legislation there is only one really reliable method of transferring money

from London to India, viz, by importing sovereigns, and as such imports cannot be effected in less than a month, the Directors are of opinion that the legislation conferring power upon the Presidency Banks to import funds should be framed in accordance with the Currency legislation, and should allow the Banks to borrow in London at least one month before they anticipate pressure in India

7 As the import and export of capital will be conducted under the supervision of the Comptroller-General, the Directors can see no objection to the Banks being given a free hand, subject to this supervision, to time their borrowings in London as they think fit, and they submit that it is undesirable to prohibit the import of funds from London until the Indian Bank rate reaches a high level. They are ready to admit that it is desirable in the interests of India, as a whole, that foreign capital should not be imported as long as local capital is seeking employment at reasonable rates, but it is clearly to the advantage of the Presidency Banks to secure all capital of this kind before importing foreign capital, as the former, if left in the market, would compete with the latter. Or if it is employed for surplus State balances that is sought, all that is necessary is to prohibit the Presidency Banks from borrowing in London as long as Government are prepared to lend. It is said that it is not intended to encourage a resort to the London market as a speculative measure in anticipation of a deficiency of loanable capital, but the Directors maintain that owing to distance from London and the large and abrupt nature of the demands for accommodation in India, it is necessary to anticipate a deficiency in order to prevent one. Speculations in exchange for a rise or fall are a different class of operations. The Directors have no desire to engage in such operations, and they hold that the Presidency Banks will be unable to embark in them as long as they are prohibited from borrowing in London and from importing and returning the funds except with the approval of the Comptroller-General.

8 There is one aspect of this proposal which the Directors think it right to mention, not because there is any danger of any of the Banks neglecting their duties to the public, but because they consider it desirable that legislation should not be framed in a manner that might afford inducements to the Presidency Banks to depart from their ordinary lines of action. One of the special duties of the Presidency Banks is to regulate the Bank rate in accordance with the requirements of the market, but under the proposed rule the Banks might be induced to raise the rate prematurely, in order that they might import foreign capital by Council Bills and other cheap, but dilatory methods, and thus avoid the loss which would be incurred by buying wire transfers in London at the actual times of pressure. The Directors think it desirable that these cheaper forms of remittance should be open to the Presidency Banks without a premature rise in the Bank rate, and they would therefore urge that the Government proposal should be modified.

9 As an alternative to the Government proposal, my Directors would suggest either that the Presidency Banks be given a free hand to borrow in London whenever they deem it necessary, or whenever are able to satisfy the Comptroller-General that an import of capital is desirable.

#### *II—Extension of the Bank's Power to deal in Securities*

10 The Directors welcome the concession made in this direction, and think that the Presidency Banks might be allowed to buy or advance upon debentures issued by Native States, subject to the previous sanction of the Government of India to each transaction of the kind.

#### *III—Extension of the Period for making Advances*

11 The extension from three to six months is approved, and the Directors think it might be made in the case of advances against personal security, as well as against tangible security.

*IV.—Increase of the Limit for Overdrafts*

12 The proposed increase from Rs 2,000 to Rs 10,000 is welcomed by the Directors.

*V.—Removal of the Maximum Limit of the Banks' Capital*

13 No exception is taken to the repeal of the proviso to section 14, which fixes a maximum limit for the capital of each Bank

*VI.—Taking over the Business of other Banks*

14 My Directors approve of the proposal to empower the Bank to take over the business of any other Bank with the previous sanction of Government, but they think that some provision should be made to give the Bank Directors liberty of action in an emergency, failing a prompt reply from Government, as in times of crises it is necessary to act promptly. They presume that the Directors of a Presidency Bank will be at liberty to take over at any time the business of another Bank, provided that such business is limited to that which is authorised by the Presidency Banks Act, and that the transfer can be arranged without increasing the capital of the Presidency Bank, e.g., by paying the shareholders of the absorbed Bank out of the Reserve Fund of the absorbing Bank. A provision to this effect might be inserted in the amended Act

*VII.—Advances on Joint Promissory Notes*

15 The Directors are glad to hear that their proposal has been accepted by Government

*VIII.—Loans to the Courts of Wards*

16 It is presumed that these advances may be made for any period up to six months on the demand promissory note of the officer in charge of the Wards Estate with pledge of the assets of the estates, and, if so, a clause to this effect should be inserted in the Act

*IX.—The Bank's Accounts to be audited by Public Accountants.*

17 It is already the practice of the Bank to employ Public Accountants for this purpose

*X.—The Banks to be bound to maintain a Minimum Proportion of Cash to Liabilities, or to pay Fines on a Sliding Scale varying inversely to the Percentage of Cash*

18 It is proposed to require the Banks to maintain their cash balances at a safe level, and to impose a penalty when the proportion which those balances bear to the Banks' liabilities falls below a fixed minimum percentage. The form of penalty suggested is the payment of a fine to the Government at so much per cent. on the deficiency of the cash balances below the minimum percentage. The following rates are suggested —

- (a) When the ratio of cash to liabilities is below 35 per cent, but not below 30 per cent, at 1 per cent on the sum required to raise it to 35 per cent,
- (b) When the ratio is below 30 per cent., but not below 25 per cent., at 5 per cent. on the sum required to raise it to 30 per cent, and at 1 per cent on the further sum required to raise it to 35 per cent. ;

- (c) When the ratio is below 25 per cent, but not below 20 per cent, at 10 per cent on the sum required to raise it to 25 per cent, at 5 per cent on the sum required to raise it from 25 to 30 per cent, and at 1 per cent on the sum required to raise it further from 30 to 35 per cent and so on

19 The chief objection to this proposal is that it will hamper the Banks in carrying out one of their most important duties as Central Banks, viz, to advance largely at times of severe monetary pressure. At such times a high rate of interest is desirable, but a prohibitive fine of 5 or 10 per cent would be most detrimental to the interest of the commercial community, as the Presidency Banks would be obliged to withhold or even withdraw accommodation at the very time it was urgently required. Under the German system, which is very generally approved, the Central Bank is charged 5 per cent when its reserves fall below a prescribed limit, but in return for the 5 per cent, funds in the shape of notes are placed at the Bank's disposal in order to enable it to advance freely to relieve the pressure for accommodation. The Bank is fined for failing to preserve an adequate reserve, but the fine is in the form of an interest allowance and the public do not suffer. Under the system proposed for India, the Banks will be fined up to 10 per cent or more, and no funds will be placed at their disposal in return. The fine will force them to press the public at the very time the public should have large accommodation placed at their disposal. The Directors would therefore with all deference desire to enter a protest against this proposed measure, as they believe it to be unprecedented, unsuitable and detrimental to the public interest.

20 As an alternative proposal the Directors would suggest that the Presidency Banks might be bound when funds are available in the Government treasuries to maintain the desired percentage by borrowing from Government at the Bank rate with a minimum of 6 per cent per annum. When no such funds are available, the Presidency Banks might be bound to buy Council transfers or transfers on the Currency Reserve under the Gold Note Act from the Secretary of State at a rate  $\frac{3}{4}$ ths over the rate at which Council Bills were sold on the preceding Wednesday. Taking the difference in the time of arrival of Council Bills and transfers to be 17 days, the  $\frac{3}{4}$ ths is equivalent to interest at the rate of  $6\frac{1}{4}$  per cent per annum. My Directors are confident that funds will always be available either in the Treasuries or in the Currency Reserve, but if both these reserves should fail at any time, they would urge in the interest of the public that the Banks be allowed to include in their percentages funds borrowed by them in London for despatch to India or on the way to India. Bank cash reserves are maintained in order that they may be available for use in emergencies, and a scarcity of funds in the Government reserves would appear to justify a temporary reduction in the Bank cash balances. By way of illustration it may be mentioned that the National Banks in New York are allowed 30 days to adjust any deficiency in their reserves below the prescribed minimum of 25 per cent, and the Indian Banks appear entitled to longer time for adjustment, as they are more distant from London.

21 It is also thought that the percentage at the beginning of the busy season should be greater than at its close. If the percentages in May and June are not allowed to fall below the figure that is deemed necessary in December, the Presidency Banks will be obliged to import unnecessary capital themselves or to fix rates which will induce other Banks to import surplus funds, and thus create a plethora of capital in the autumn, thereby saddling India with the double expense of importing and re-exporting funds which are not required.

22 I am further desirous to submit that a minimum of 35 per cent of cash to liabilities is too high for Banks, which work to a considerable extent with Savings Bank funds and deposits fixed for periods varying from 3 to 12 months. It is generally recognised that Savings Bank deposits require a comparatively small reserve, and no reserve is needed for the fixed deposits

until the approach of the date fixed for repayment. The interest charge payable on these deposits is comparatively heavy, seeing that only a very small proportion can be employed in the slack season, and no Bank can afford to work with them if it is forced to keep a large percentage of them unemployed in the busy season. I am accordingly to express the hope that, in the event of this proposal being carried into effect, such deposits may be excluded in calculating the percentages, or at all events that all such deposits may be excluded, except those falling due within a month.

23 It is understood that Government do not intend to publish the figure they fix upon as the approved minimum percentage, but the Directors are of opinion that all efforts to keep back this information will fail, and they consider there is every reason to fear that the proposed minimum, if unaccompanied by reliable provisions for enabling the Banks to expand their resources promptly will create apprehensions in the public mind whenever the minimum is approached, and if large and sudden demands on the money market are expected at the time, a monetary crisis may occur.

#### *Government Deposits*

24 My Directors are pleased to see that in fixing a percentage of cash to liabilities to be maintained by the Banks, Government recognise that an allowance should be made for deficiencies caused by the withdrawals of Government deposits, but they think that the figures selected as the normal minima for the Government deposits require further consideration. The suggestion is that the normal minima for the Government deposits be taken at the following figures —

In the Bank of Bengal	-	-	-	-	150 lakhs
Ditto Bombay	-	-	-	-	100 „
Ditto Madras	-	-	-	-	50 „

and that any shortage in the percentage shall be disregarded to the extent to which the deficiency in the Bank balance is caused by any drop in the Government deposits below those minima.

25 I am directed to point out that the Government balances were originally placed in the Presidency Banks in part compensation for the withdrawal of the Bank's note issues, the proportion of the minimum deposit assigned to each being based on the average note circulation, also that in their letter No 3,566, dated 22nd September 1875, the Government of India informed the Banks that they would ordinarily not leave with the headquarters of the Banks, otherwise than temporarily, more than the following sums, viz —

				Rs	
Bank of Bengal	-	-	-	-	1,00,00,000
Ditto Bombay	-	-	-	-	50,00,000
Ditto Madras	-	-	-	-	30,00,000

26 My Directors beg to submit that in fixing the minimum Government balances to be taken as the basis of the calculation of the shortage above referred to, it is essential to an equitable settlement of the amounts to be apportioned to each Bank that the following very important factors in the case should receive careful consideration —

- (1) The average note circulation of the Banks for the withdrawal of which the Government deposits were intended to be compensation in part,
- (2) The Capital of the Banks,
- (3) The number of Branches of each Bank at which the Government work is carried on,
- (4) The amount of work done by the Bank for Government at Head Office and Branches, as indicated by the annual summations of the Government Accounts.

27 The Government are already in possession of information on all these points; and if due consideration is given to the figures, my Directors are confident that it will be recognised that the Bank of Bengal is entitled to a larger minimum than 150 lakhs, and they desire me to say that in their opinion it should not be fixed at less than 200 lakhs

28, I am also desired to refer to the suggestion submitted demi-officially by Mr A M Lindsay, Deputy Secretary and Treasurer of the Bank, in May 1901, and to invite the Government to consider whether it would not be advisable to fix upon a higher level for the Government Deposits at the Head Offices of the Banks in the busy trade season, and a lower level for the slack season, instead of adopting one approximate level for all the year round. The latter system would answer if the cash balances of the Bank and the cash balances of the Government were fairly steady, but they are subject to great variations, and the important point is that the Treasury balances are at their highest during the busy trade season from January to June, when the Bank balances are at their lowest, and from July to December, when trade is slack and the Bank balances are heavy, the Treasury balances are in most need of replenishment. The proposal my Directors have to make is one of mutual accommodation to Government and the public. It is that the average deposits be raised 50 per cent during the months of January to June, and reduced 50 per cent during the months of July to December. The change will increase the resources of both Government and the Banks, because it will place additional sums in their possession at the time they each require them. It will reduce the Bank rate during the busy season and will tend to steady the rate all the year round.

#### *Home Remittances of Moderate Amounts for Customers*

29 In addition to the proposed alterations enumerated above, I am desired to bring to your notice that it would be a great convenience if sanction were accorded to the Presidency Banks to draw sterling drafts on London in the case of the Home remittances of their customers. The present inability to do so is often prejudicial to the Banks' current account business. In seeking permission to engage in such transactions, my Directors desire me to point out that they have no wish to embark in trade exchange operations, and that, if considered desirable, the concession they ask might be granted subject to a limit of say 200L, being imposed on remittances in any one month on behalf of any particular individual.

#### *Diagrams.*

30 In order to show clearly what is needed to improve the existing legislation regarding the Presidency Banks, I am instructed by the Directors to enclose two diagrams which exhibit at a glance the monthly fluctuations in the deposits, advances, investments and cash balances of the Presidency Banks since the beginning of 1896, also the fluctuations in the cash balances of the Government of India and of their deposits with the Presidency Banks during that period.

31 It is submitted that the large increase in the advances of the Presidency Banks each spring, accompanied frequently by a drop in their deposits, shows that additional borrowing power would be advantageous at that time, and that, looking to the abrupt nature of these demands, it appears undesirable to hamper the Presidency Banks in their efforts to make timely provision to adjust the supply of capital to demand at that period. It is also evident from the extent and abruptness of these demands that serious inconvenience might be caused by forcing the Banks to raise their percentage of cash to liabilities at times of pressure when they have no means of doing so otherwise than by curtailing advances or by incurring prohibitive expense. I have also to invite attention to the low level of the Government Deposits as compared with other deposits, as well as with the Treasury balances outside the Banks, and in particular I have to ask the Government

of India to note how their cash balances rise just as the Bank advances rise, and how easily their deposits with the Banks might be adjusted to the requirements of the money market instead of being kept at a uniform low level. It should also be noted that while the Presidency Banks, have strengthened their position of late by increased deposits and otherwise, it is clear from the wide divergence between deposits and advances in slack seasons, that the great defect in the Indian Central Banks system is the absence of elastic resources which will expand and contract in accordance with the demands for accommodation, and it is hoped that the contemplated reforms will include remedies for this defect.

Enclosure No 11.

No 205-A, dated the 11th January, 1904.

From R A Mant, Esq, I C S, Under-Secretary to the Government of India, Finance and Commerce Department, to the Secretary and Treasurer, Bank of Bengal, the Secretary and Treasurer, Bank of Bombay, the Secretary and Treasurer, Bank of Madras

I am directed to refer to the correspondence ending with your letter (No 151), dated the <sup>19 August 1903</sup><sub>9 July 1903</sub> regarding certain proposals, which are <sub>13 July 1903</sub> under the consideration of the Government of India, for amending the Presidency Banks Act with a view to extending the operations of the Presidency Banks.

2 The proposals, which the Government of India were disposed to recommend to the Secretary of State, were summarised in my letter No 2265-A, dated 28th April 1903. In consequence of the representations which have since been received from the Banks, the Government are now willing to modify those proposals to the extent indicated below before submitting the matter to the consideration of the Secretary of State.

3 *Appointment of Auditors*—The Government of India proposed, in my letter above cited, to require the accounts of the Banks to be audited by public accountants. It has been represented that in India there is no recognised test of what constitutes a public accountant. The Government of India therefore propose, in lieu of their original proposal, to take power to annul any particular election of auditors which may have been made under section 47 of the Act.

4 *Maintenance of a Minimum Proportion of Cash to Liabilities*—Having considered the representations made on this question by the representatives of the Banks, the Government of India now propose to require the Banks to hold cash amounting to not less than 40 per cent of their deposits at call (excluding Savings Bank deposits) and an additional sum amounting to not less than 25 per cent of the deposits which are payable, not at call, but within three months of the date on which the account is made up. It is not proposed to prescribe a minimum cash reserve against Savings Bank deposits or against deposits which are not payable within three months.

5. The Government of India further propose that, in the event of the cash balance of any of the Presidency Banks falling below the prescribed minimum, the Bank shall be required to make good the deficiency, within such time as the Government may direct, either—

- (1) by taking a loan from the Government at 8 per cent. or at bank rate, whichever may be the higher, or
- (2) by depositing gold with the Bank of England in London, and, if so required by the Government, expending such gold in the purchase of telegraphic transfers from the Secretary of State in London.



6 It must be distinctly understood with reference to the proposals in the foregoing paragraph, that the Government of India do not contemplate in any circumstances undertaking an obligation to advance money to the Banks, either at 8 per cent or at any other rate of interest. In the event, however, of Government refusing to make a loan in the circumstances indicated, the Banks will have the alternative of borrowing in London the amount required to enable them to fulfil the obligation which it is proposed that they should accept.

7 It is proposed that the measures indicated in paragraphs 4 and 5 of this letter should not at present be effected by legislation, but should be incorporated in a special contract to be concluded with each Presidency Bank. In this contract the Government of India would take power to order an examination into the affairs of any Presidency Bank which, having allowed its cash balances to fall below the prescribed minimum, fails to replenish them in the manner indicated in paragraph 5.

8 In connection with these proposals I am to enclose, for the information of your Directors, an extract from the law which regulates the administration of National Banking Associations in the United States of America, and which provides, in circumstances similar to those now under consideration, for the appointment of a receiver to wind up the business of the association. While not desiring to resort to such an extreme step in India, the Government of India feel it to be necessary to take some power to ensure compliance with whatever measures may be determined to be necessary for the proper regulation of the business of the Presidency Banks.

9 I am to request that any observations which the Directors of the Bank of <sup>Bengal</sup> <sup>Bombay</sup> <sup>Madras</sup> may wish to offer on this letter may be submitted at as early a date as may be convenient.

*Section 95 of the National Bank Act*

95 Reserve not maintained (Section 5191) Whenever the lawful money of any association in any of the cities named shall be below the amount of 25 per centum of its deposits, and whenever the lawful money of any other association shall be below 15 per centum of its deposits, such association shall not increase its liabilities by making any new loans or discounts otherwise than by discounting or purchasing bills of exchange payable at sight, nor make any dividend of its profits until the required proportion between the aggregate amount of its deposits and its lawful money of the United States has been restored. And the Comptroller of the Currency may notify any association, whose lawful money reserve shall be below the amount above required to be kept on hand, to make good such reserve, and if such association shall fail for 30 days thereafter so to make good its reserve of lawful money, the Comptroller may, with the concurrence of the Secretary of the Treasury, appoint a receiver to wind up the business of the association, as provided in section 5234.

Enclosure No 12

Dated the 29th February 1904

From the Secretary and Treasurer, Bank of Bengal, to the Under-Secretary to the Government of India, Finance and Commerce Department

I have the honour to acknowledge receipt of your letter No 205-A, dated 11th instant, in which you refer to the correspondence regarding certain proposals now under consideration of the Government of India for amending the Presidency Banks Act with a view to extending the operations of the Presidency Banks, and intimate that in consequence of the representations which have been received from the Banks, the Government are willing to modify those proposals, to the extent which you indicate, before submitting the matter to the consideration of the Secretary of State.

Your letter has been considered by the Directors of the Bank, who have directed me to reply as follows —

#### APPOINTMENT OF AUDITORS

In the summary of proposals which accompanied your letter No 2265-A, dated 28th April 1903, the Government of India intimated that it was proposed to require the audit of the Bank's accounts by Public Accountants, at the same time explaining that it was not intended to revoke the power of selection possessed by the Banks under Section 47 of the Presidency Banks Act, but merely to limit the field of selection

The Directors readily agreed to this proposal, as it had been the Banks' practice for many years to employ Public Accountants as Auditors, and no difficulty had been experienced in finding candidates qualified in every respect for the appointment

You now inform the Bank that it has been represented that in India there is no recognised test of what constitutes a Public Accountant, and that the Government of India therefore proposed to take power to annul any particular election of Auditors which may have been made under Section 47 of the Act

The Directors are aware that in India the position and qualifications of Public Accountants are not defined as they are in Great Britain by the Rules of the institution under which they work, but they beg to point out that in Calcutta the number of practising Public Accountants who have passed the test of the Chartered Institute of Accountants in England and Wales, or the Society of Accountants in Edinburgh, Glasgow and Aberdeen, and who are members of one or other of those institutions, is sufficient to afford the shareholders of the Bank an adequate field for the selection of thoroughly capable and suitable Auditors I am to submit, therefore, that in taking power to annul any particular election of Auditors which may have been made under Section 47 of the Act, the intention of Government as explained in the proposals above quoted—not to revoke the power of selection possessed by the shareholders, but merely to limit the field of selection to Public Accountants—should be an integral part of the proposed amendment

#### VARIOUS SUGGESTIONS BY THE BANK

I am further desired to bring to your notice that, since the receipt of the proposals conveyed in the Government of India's letter No 2265-A, of the 28th April 1903, my Directors have made the following suggestions which, if accepted by Government, would require to be given effect by legislation, and I beg to submit them again for ready reference in the hope that they will receive favourable consideration They are set forth in the following extracts from my letter of 19th August last to the Financial Secretary to the Government of India —

#### EXTENSION OF THE PERIOD FOR MAKING ADVANCES

“The extension from three to six months is approved, and the Directors think it might be made in the case of advances against personal security, as well as against tangible security

#### TAKING OVER THE BUSINESS OF OTHER BANKS

“My Directors approve of the proposal to empower the Bank to take over the business of any other Bank with the previous sanction of Government, but they think that some provision should be made to give the Bank Directors liberty of action in an emergency, failing a prompt reply from Government, as in times of crises it is necessary to act promptly They presume that the Directors of a Presidency Bank will be at liberty to take over at any time the business of another Bank, provided that such business is limited to that which is authorised by the Presidency Banks Act, and that the transfer can be arranged without increasing the capital of the Presidency Bank

*e.g.*, by paying the shareholders of the absorbed Bank out of the Reserve Fund of the absorbing Bank. A proviso to this effect might be inserted in the amended Act.

#### HOME REMITTANCES OF MODERATE AMOUNTS FOR CUSTOMERS

‘In addition to the proposed alterations enumerated above, I am desired to bring to your notice that it would be a great convenience if sanction were accorded to the Presidency Banks to draw sterling drafts on London in the case of the Home remittances of their customers. The present inability to do so is often prejudicial to the Bank’s current account business. In seeking permission to engage in such transactions, my Directors desire me to point out that they have no wish to embark in trade exchange operations, and that, if considered desirable, the concession they ask might be granted subject to a limit of, say, 200*l.*, being imposed on remittances in any one month on behalf of any particular individual.’

#### MAINTENANCE OF A MINIMUM PROPORTION OF CASH TO LIABILITIES

In lieu of the second proposal made by the Government in Section 9 of the memorandum enclosed in your letter No 2265-A of 28th April 1903, the Government of India now propose to require the Banks to hold cash amounting to not less than 40 per cent of their deposits at call (excluding Savings Bank deposits) and an additional sum amounting to not less than 25 per cent of the deposits which are payable within three months.

I am directed to point out that there is no precedent for requiring such a high percentage, to respectfully represent that such percentage is excessive, and to suggest, as an alternative, an all-round minimum proportion of cash to liabilities of 33 per cent on liabilities payable at call and within one month of the date on which the accounts are made up, but excluding Savings Bank deposits and Fixed deposits which are not payable within one month.

The Government of India further propose that, in the event of the cash balance of any of the Presidency Banks falling below the prescribed minimum, the Bank shall be required to make good the deficiency within such time as the Government may direct, either—

- (1) by taking a loan from the Government at 8 per cent or at Bank rate, whichever may be the higher, or
- (2) by depositing gold with the Bank of England in London and, if so required by the Government, expending such gold in the purchase of telegraphic transfers from the Secretary of State in London.

My Directors assume that this proposal does not in any way affect proposal No 1 in the memorandum above referred to (received with your letter of 28th April 1903), which reads as follows —

- (1) *Borrowing in London*—It is proposed to give the Banks the power to borrow in London when the Bank rate in India rises above a certain point.

It is considered desirable to allow the Banks to have access to the London market at times when there is a real deficiency of loanable capital in India, and it is not intended to encourage resort to that market, as a speculative measure, in anticipation of such a deficiency. It is therefore proposed that borrowing in London should be allowed only when the Indian Bank rate rises above a fixed limit. As at present advised, the Government of India consider that 7 or 8 per cent will be a suitable figure for this limit.

Briefly stated, the effect of the two proposals is as follows —

- (1) *Proposal of 28th April 1903*—At times when there appears to be a deficiency of loanable capital in India, although the cash balance of any of the Presidency Banks has not fallen below the prescribed minimum, the Directors shall be allowed to borrow in London, provided the Bank rate has risen above a fixed limit of

7 or 8 per cent, which the Government of India consider a suitable figure

- (2) *Proposal of 11th January 1904* — At times when there is a deficiency of loanable capital in India, and the cash balance of any of the Presidency Banks has fallen below the prescribed minimum, the Presidency Bank concerned shall be required to make good the deficiency either by taking a loan from Government at 8 per cent or at Bank rate, whichever may be higher, or (in the event of a loan being refused) by depositing gold in the Bank of England in London and, if so required by Government, expending such gold in the purchase of telegraphic transfers from the Secretary of State

*Proviso* — The Government of India do not contemplate in any circumstances undertaking an obligation to advance money to the Banks at 8 per cent or any other rate of interest

Although not so stated, it is assumed that in proposal No 1, as in proposal No 2, it is not intended that the Banks shall be permitted to borrow in London until they have been unsuccessful in an application to the Government of India for a loan

The Directors desire me to point out that there is practically no difference between the conditions of optional borrowing when the cash balance exceeds the prescribed minimum, and those of compulsory borrowing when the cash balance has fallen below that minimum, and I am to respectfully submit, in the interests of the public as well as in the Bank's interest, that when the Directors foresee a scarcity of money and high rates of interest, they should be at liberty to take timely measures to meet the public demands. I am therefore to propose that the Directors should be free to act when the Bank rate has reached 6 per cent

In dealing with the several proposals of the Government of India the Directors have been actuated by a desire to acquiesce in them as far as possible, in the hope that an early settlement of the questions which have been the subject of correspondence for a number of years may be arrived at, and I am to express their hope that the suggestions now submitted will be accepted by Government.

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Enclosure No 13

No 183, dated the 10th March 1904

From the Secretary and Treasurer, Bank of Bombay, to the Under-Secretary to the Government of India, Finance and Commerce Department

I have the honour to acknowledge receipt of your letter No 205-A, dated 11th January last, which has received the most careful consideration of my Directors

Before stating their views on the modified proposals therein submitted to them, my Directors desire again to beg that the advisability of requiring them to maintain a specified proportion of the Bank's liabilities in cash may be reconsidered. As the Bank does not possess the right to issue notes the suggestion would appear to have been made for the purpose of protecting depositors. But, as formerly intimated, my Directors are of opinion that all depositors are already well protected against loss, and they regret they are unable to agree that any further protection is called for. By the Presidency Banks Act the employment of the Bank's funds, including all deposits, is restricted in a way and to an extent that is very unusual while the Bank's position is published in a Statement of Affairs issued weekly. Moreover large sums have been set aside from time to time for the purpose of accumulating a Reserve Fund which, in combination with the Bank's Capital, forms substantial and sufficient security against loss so far as depositors are concerned. My Directors are, therefore, of opinion that there is no occasion for the additional measure of protection for depositors which has been proposed.

It seems to my Directors that the shareholders' interests have not been sufficiently considered in connection with this suggested further restriction on the Bank's working. As above indicated, in addition to the protection afforded to depositors by the provisions of the Presidency Banks Act with respect to the manner in which the Bank's funds may be employed and by the Bank's Capital, a large Reserve Fund has been accumulated from profits which in compliance with the provisions of the Act has been invested in public securities yielding a comparatively small return in interest. The necessity for thus investing the Reserve Fund instead of permitting its investment in the other forms of employment authorised for the Bank's other resources, as is usual, operates to the disadvantage of the Bank and the shareholders amongst whom a strong and growing feeling exists that the restriction with respect to the investment of the Reserve Fund moneys should be removed. This feeling will be strengthened if the proposed further restriction is imposed. My Directors, therefore, desire to suggest that if Government press the proposal they will at the same time amend the section of the Act relating to the investment of the Reserve Fund in such a way as to leave the Directors discretion to use the money in any of the forms of investment permitted by the Act for the Bank's other resources.

Coming now to the modified proposals submitted for their consideration my Directors have nothing to say in the matter of the new proposal respecting the appointment of Auditors.

With regard to the suggested percentages of liabilities to be held in cash, my Directors regret they are unable to assent to the requirement that the Bank should hold 25 per cent of the deposits which are payable not at call but within three months of the date on which the account is made up. They are unable to admit for reasons formerly given that such a provision is at all necessary. They regard the proposal as unsound in principle, and in their opinion it would be found in practice to be too expensive to permit of long dated fixed deposits being regularly employed.

With regard to the suggested minimum of 40 per cent in cash against deposits at call (excluding Savings Bank deposits) combined with additional cash equal to 25 per cent of deposits payable not at call but within three months of the date on which the account is made up, my Directors are of opinion that if the minimum cash is to be fixed on the basis stated the percentage in both cases should be much lower. As already mentioned they look upon a reserve against fixed deposits as superfluous. They also look upon the fixed point of 40 per cent against the call money indicated as too high for a minimum. In their opinion, which they state with all deference but with firm conviction, it is impolitic to fix any minimum. The amount of such money which may safely be employed is a question which can be properly settled only with due regard to the nature of the deposits, which naturally changes from time to time. In the case of this Bank the Directors are satisfied that a much lower reserve than 40 per cent might safely be taken as a fixed minimum. They accordingly desire to represent that in their opinion if a minimum limit is to be fixed a percentage of 30 would be safe without the addition of any reserve against any deposits fixed up to particular dates and not due.

The Government of India further propose that in the event of the cash balance of any of the Presidency Banks falling below the prescribed minimum the Bank shall be required to make good the deficiency within such time as the Government may direct, either—

- (1) by taking a loan from the Government at 8 per cent or at Bank rate whichever may be the higher, or
  - (2) by depositing gold with the Bank of England in London, and, if so required by the Government, expending such gold in the purchase of telegraphic transfers from the Secretary of State in London,
- and it is explained that Government do not contemplate undertaking an obligation to advance money to the Banks either at 8 per cent or at any other rate of interest, but that in the event of Government refusing to make a loan in the circumstances indicated the Banks will have the alternative of borrowing in London the amount required to enable them to fulfil the obligation proposed.

My Directors are of opinion that the rate of 8 per cent or Bank rate, whichever may be higher, is too high as a minimum and they desire to represent that 6 per cent or Bank rate, whichever may be higher, would be sufficiently restrictive for all practical purposes

The Government of India further propose that the requirement as to a minimum percentage of liabilities to be held in cash and as to making good a deficiency should not at present be effected by legislation but should be incorporated in a special contract to be concluded with each Presidency Bank, and also that in this contract Government would take power to order an examination into the affairs of any Presidency Bank which having allowed its cash balances to fall below the prescribed minimum fails to replenish them in the manner indicated

My Directors will be glad to consider this contract when a copy is submitted to them

In connection with the Government proposals an extract from the National Bank Act of the United States of America is appended to your letter and in paragraph 8 attention is drawn to the fact that that Act provides in circumstances similar to those now under consideration for the appointment of a Receiver to wind up the business of the Association, and it is added that while not desiring to resort to such an extreme step in India, Government feels it to be necessary to take some power to ensure compliance with whatever measures may be determined to be necessary for the proper regulation of the business of the Presidency Banks. My Directors regret they are unable to agree that the National Bank Act of the United States can properly be evidenced as supporting any of the present Government proposals, because the circumstances under which the National Banks are organised and work in the United States differ materially from those affecting the Presidency Banks. The National Bank Act appears to have been passed to provide a national currency secured by a pledge of United States Bonds and to provide for the circulation and redemption thereof, and the regulations to which attention is now drawn would seem therefore to have been laid down because the Banks have the right to issue notes. Moreover the National Banks are very numerous. They numbered 4,226 on 30th September 1901 and many of them work with a capital of \$25,000, say 5,000*l* each, the average capital on the date mentioned being only about 30,000*l* for each Bank. Under these circumstances my Directors regret they are unable to discern any appropriate analogy between those National Banks and the Presidency Banks in this country, seeing the latter do not issue currency notes, while they each possess large Capital and Reserve Funds.

In conclusion, my Directors desire to take this opportunity to revert to the first proposal for the amendment of the Presidency Banks Act contained in the memorandum which accompanied your letter No 2265-A, dated 28th April 1903, and to say that in their opinion the proposal requires further consideration. It was proposed to allow the Presidency Banks power to borrow in London only when the Indian Bank rate was above 7 or 8 per cent. In the opinion of my Directors the power will be of real utility only if it can be exercised when interest is at a lower level than 7 or 8 per cent, and they think that they should be empowered to borrow in anticipation of a demand for accommodation instead of waiting until the demand is experienced and rates are forced to the level named.

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Enclosure No 14.

No. 122-4 G P. L., dated the 30th March 1904.

From the Acting Secretary and Treasurer, Bank of Madras, to the Secretary to the Government of India, Finance and Commerce Department.

I have the honour to acknowledge receipt of your letter No 205-A., of the 11th January 1904, stating that, in consequence of the representations which have been received from the Banks, Government are willing to modify to the extent therein indicated the proposals which are now under their

consideration for amending the Presidency Banks Act with a view to extending the operations of the Presidency Banks

These modified proposals have received the careful consideration of my Directors, and I am desirous to submit for the consideration of Government the following remarks thereon

(2) *Appointment of Auditors*—My Directors have nothing further to say in regard to this proposal. It is manifestly in the interests of the Bank to secure the best skill available in the auditing of the accounts

(3) *Maintenance of a Minimum Proportion of Cash to Liabilities*—It is observed that Government now propose to require the Banks to hold cash amounting to not less than 40 per cent of their deposits at call (excluding Savings Bank deposits), and an additional sum amounting to not less than 25 per cent of the deposits which are payable, not at call, but within three months of the date on which the account is made up

My Directors entered fully into the question of maintaining a reserve against fixed deposits in their last letter, and they see no reason to modify the views they expressed on that occasion. They are of opinion that there is no necessity to hold cash against deposits which are fixed and not due, and that any action in this direction would seriously affect the earning powers of this Bank

As regards liabilities payable on demand, the position of a Bank is not to be gauged merely by the percentage of its cash balance to liabilities. There are many other points to be considered which can only be known to the Executive. My Directors would therefore respectfully deprecate any action on the part of Government in the shape of enforcing a fixed minimum which would be detrimental to the interests of trade, inasmuch as it would have the effect of forcing up the rate of interest sooner than would otherwise be necessary

In any case they consider the proposed minimum of 40 per cent too high, and they would submit that a cash reserve of 30 per cent against liabilities payable on demand excluding deposits which are fixed and not due, would provide a sufficient margin of safety

Government further propose that in the event of the cash balance falling below the prescribed minimum the Bank shall be required to make good the deficiency—

- (1) by taking a loan from Government at 8 per cent or Bank rate, whichever is higher, or,
- (2) by depositing gold with the Bank of England, and if so required by expending such gold in the purchase of telegraphic transfers from the Secretary of State,

and it is intimated that Government do not contemplate in any circumstances undertaking an obligation to advance money to the Banks either at 8 per cent or at any other rate of interest. In the event, however, of Government refusing to make a loan in the circumstances indicated, the Banks will have the alternative of borrowing in London the amount required

My Directors consider the rate of 8 per cent above quoted too high, and they would submit that a minimum of 6 per cent or Bank rate, whichever is higher, is sufficient under the circumstances

In this connection and with reference to paragraph I of the memorandum which accompanied your letter No 2265-A of the 28th April last, in which it was proposed to give the Banks power to borrow in London when the Bank rate in India rises above a certain point (7 or 8 per cent), I am to point out that in order that this power may be of real value it is essential that the Bank should be in a position to make the necessary arrangements for strengthening its position early in the season without waiting until the matter becomes urgent, when it will have to lay down funds at a maximum cost, and my Directors trust that Government will see fit to modify its proposals in this sense

In conclusion, while fully believing that Government are desirous of accomplishing the object of the negotiations and discussions which have taken place during the past three years, viz, to give the Presidency Banks facilities for extending their operations, my Directors desire to say that in

their opinion the proposals now submitted by Government will not only fail to attain the object in view, but will in all probability necessitate a curtailment of the Bank's operations

The proposed amendments to the Bank Act are desirable but not of supreme importance, and if these facilities can only be granted simultaneously with the imposition of restrictions which are onerous, and, my Directors submit, unnecessary, they would prefer to forego such facilities altogether, believing, as they do, that the Government proposals will not benefit either the Bank or the public

Enclosure No 15.

No. 2874-A, dated the 6th May 1904

From E. N. Baker, Esq., ICS, CSI, Secretary to the Government of India, Finance and Commerce Department, to the Secretary and Treasurer, Bank of

Bengal  
Bombay  
Madras

I am directed to refer to the correspondence ending with your letter dated the 29th February No 183, dated the 10th March 1904, on the subject of the amendment of the No 322-4-G P L, dated the 30th March Presidency Banks Act. You represented in that letter that the percentage of cash which, the Government of India proposed, should be maintained against liabilities was too high, and you suggested as an alternative that the minimum reserve of cash should be fixed at  $\frac{33 \text{ per cent of liabilities (excluding Savings Bank deposits) payable at call only}}{\dagger 40 \text{ per cent. of liabilities payable on demand only}}$

2 The Government of India are anxious to meet the wishes of the Banks as far as possible in this matter, and they are prepared to modify their former [proposal to the extent indicated in your letter] proposal† to the following extent, which has been suggested by the Bank of Bengal, viz, that the minimum proportion of cash to liabilities shall be 33 per cent of liabilities payable at call or within one month, but excluding Savings Bank deposits and fixed deposits not payable within one month of date of statement of liabilities. This is the lowest limit which the Government of India consider to be compatible with safety, and they hope that your Directors will now agree to it so that the Government of India may be in a position to forward all the proposals under consideration to the Secretary of State with the concurrence of the Banks

3 You further suggest that the lowest Bank rate at which the Banks may be permitted to resort to the London market or to borrow in London should be fixed at 6 per cent instead of 8 per cent as proposed by the Government of India. On this point also the Government of India are willing to defer to the wishes of the Banks, and I am now to enquire whether your Directors definitely accept the proposal put forward in paragraph 5 of my letter No 205-A, dated the 11th January 1904 modified to the extent of substituting 6 per cent. for 8 per cent. It is thought that the reduction now proposed will go a long way to meet the objection that the Banks should be allowed to borrow in London in anticipation of a period of stringency, instead of waiting until it has actually arisen

4 I am to request the favour of a very early reply to this letter in order that the proposals may be laid before the Secretary of State without further delay

\* To Bengal

† To Bombay and Madras.



## Enclosure No. 16.

No 189, dated the 14th May 1904

From the Secretary and Treasurer, Bank of Bombay, to the Secretary to the Government of India, Finance and Commerce Department

I have the honour to acknowledge receipt of your letter No 2874-A, dated 6th instant, in which you inform me that the Government of India are anxious to meet the wishes of the Presidency Banks as far as possible in the matter of the minimum percentage of cash to be maintained against liabilities and that they are prepared to modify their former proposal to the following extent, viz, that the minimum proportion of cash to liabilities shall be 33 per cent of liabilities payable at call or within one month, but excluding Savings Bank deposits, and Fixed deposits not payable within one month of the date of the statement of liabilities, and adding that this is the lowest limit which the Government of India consider to be compatible with safety and that they hope that my Directors will now agree to it so that the Government of India may be in a position to forward all the proposals under consideration to the Secretary of State with the concurrence of the Banks

In reply I am instructed by my Directors to intimate that they are desirous of assisting Government in this matter and that they agree to the proposal now submitted

Your letter further states that the Government of India are willing to deter to the Banks by permitting them to resort to the London market or to borrow in London when the Bank rate reaches 6 per cent, instead of 8 per cent as proposed by the Government of India, and in reply to your enquiry I am desired by my Directors to say that they accept the proposal put forward in paragraph 5 of your letter No 205-A, dated the 11th January last modified to the extent of substituting 6 per cent for 8 per cent

## Enclosure No 17

Dated the 14th May 1904

From the Secretary and Treasurer, Bank of Bengal, to the Secretary to the Government of India, Finance and Commerce Department

I have the honour to acknowledge the receipt of your letter No 2874-A, dated the 6th instant, relative to the amendment of the Presidency Banks Act

The Directors are glad to learn that the Government of India have decided to modify the proposals contained in paras 4 and 5 of their letter No 205-A, dated the 11th January 1904, to the extent of (a) fixing the minimum proportion of cash to liabilities, which the Banks would be required to maintain, at 33 per cent on liabilities payable at call only, but excluding Savings Bank deposits, and (b) substituting 6 per cent for 8 per cent as the lowest Bank rate at which the Bank may be permitted to resort to the London market or to borrow in London

I am desired to inform you in reply that the Directors definitely accept the proposals put forward in paragraph 5 of your letter No 205-A of the 11th January last, modified to the extent indicated above

## Enclosure No 18

No 122-9 G P L, dated 24th May 1904

From the Acting Secretary and Treasurer, Bank of Madras, to the Secretary to the Government of India, Finance and Commerce Department

I have the honour to acknowledge the receipt of your letter No 2874-A, dated 6th instant, on the subject of the amendment of the Presidency Banks Act, intimating that the Government of India are anxious to meet the wishes

of the Banks as far as possible, and that they are prepared to modify their former proposal in the matter of the percentage of cash against liabilities to the following extent, viz, that the minimum proportion of cash to liabilities shall be 33 per cent of liabilities payable at call or within one month, but excluding Savings Bank deposits and Fixed deposits not payable within one month

In reply I am desired by my Directors to say that they are prepared to accept the proposal as now modified

As regards the question of borrowing in London, my Directors accept the proposal put forward in paragraph 5 of your letter No 205-A, dated 11th January last, modified to the extent of substituting 6 per cent for 8 per cent

No 15, Financial, dated London, 3rd February 1905

From the SECRETARY OF STATE FOR INDIA to the GOVERNMENT OF INDIA

In your letter of the 21st July, No 264, you solicit my sanction to the introduction of legislation for the amendment of the Presidency Banks Act.

2 The most important of your proposals is for the admission of the Banks, under certain circumstances, to the London Money Market. By the existing law the Banks are prohibited from dealing in foreign exchanges except for the purpose of remitting from India the proceeds (whether principal, interest, or dividends) of securities or shares for, and at the risk of, their customers, and they are not allowed to borrow in England

3 A request for the removal of these restrictions was made by the Banks in 1877, in the Memorial forwarded with the letter from Lord Lytton's Government, of 25th January 1878, No 41, and was rejected in Mr Gathorne Hardy's Despatch of 2nd May 1878, No 135. Now that the proposal has been revived, I have carefully considered the matter with reference to the circumstances of recent years, and especially to the occasion which led to the correspondence which has been proceeding for the last five years on the position of the Presidency Banks

4 The question of the sufficiency of the banking resources of India was raised by the Indian Currency Committee of 1898-99. The attention of the Committee having been directed to the stringency which prevailed in the Indian Money Market in 1897-98, they observed, in their Report (paragraph 22), that "it may be questioned whether banking arrangements in India might not with advantage be strengthened and adjusted to the growing requirements of Indian trade." One member of the Committee recommended that, in order to assist in the maintenance of the exchange value of the rupee and for other purposes, it would be desirable to establish one strong Bank in India. The Government of India were favourably impressed by this suggestion, and proceeded to consider the possibility of absorbing the existing Presidency Banks into one strong establishment. The subject was fully discussed in this country and in India, but in their letter of 13th June 1901 the Government of India recommended that the proposal should not be persevered with at that time, and Lord George Hamilton accepted this recommendation.

5 In the course of the discussions on the proposal for the establishment of a central bank in India, the Presidency Banks took the opportunity of asking for further consideration of the proposal that had been rejected in 1878.

6 There has been considerable divergence of opinion among authorities in India in regard to the questions involved in this proposal. On the one hand, Mr. Dawkins expressed the view\* that the fusion of the Presidency Banks, and an increase of their capital must be conditions precedent to the grant to the Banks of the concessions for which they asked. Sir Edward

\* Proceedings of the Governor-General's Legislative Council, 5th January 1900, page 398 *supra*.

Law, in his Minute of 31st January 1901, did not share the opinion that a reorganisation of the Presidency Banks or an increase of their capital is required. He thought that any additional banking resources required in India could be readily found by the existing banking establishments outside the Presidency Banks. In opposition to the view that stringency is caused in India by the inadequacy of banking arrangements to trade requirements, he quoted a note by Mr Lindsay of the Bank of Bengal, arguing that, if confidence in the stability of exchange is maintained, the existing facilities for the import of foreign capital will be ample to meet all legitimate demands on the short loan market in India. Mr Lindsay urged that the exceptional stringency of 1897 was mainly due to uncertainty regarding the future exchange value of the rupee, and drew attention to the fact that, although the conditions regulating the demand for, and supply of, loanable capital were similar in 1900 to those in 1897, nevertheless money market conditions in India were much more favourable in the later year because (owing to the condition of exchange) the Exchange Banks were able to import capital to a sufficient amount to meet the requirements of the country, a condition which had not existed in 1897. The view held by Sir Edward Law and Mr Lindsay in 1901, that it is not necessary to enlarge the powers and resources of the Presidency Banks in order to secure the introduction of fresh capital into India in times of active trade, is shared by the four Exchange Banks with whom I communicated in November last while considering your present proposals. A copy of the letters received from the Exchange Banks on the subject is herewith forwarded, I request that you will consider them carefully, and will let me know your views.

7 I am disposed to think that, owing to the large funds at their command and to the important part which they take in banking and remittance transactions connected with India, the Exchange Banks are in a position to supply the additional capital temporarily required in the busy season in India so long as the conditions of exchange are satisfactory. It is true that, if at any time difficulty should be experienced or anticipated in maintaining the exchange value of the rupee, the Exchange Banks would probably be less willing to send capital to India, and stringency might result, but in such circumstances the Presidency Banks would presumably, be equally unwilling to borrow money in London for remittance to India with the risk of loss when remitting to London later for the purpose of repayment.

8 In these circumstances it would seem that no considerable advantage to Indian trade is likely to result from the adoption of your proposals, and that it is therefore undesirable to admit the Presidency Banks to a class of business from which they have hitherto been excluded, and in which (even if the maintenance of the special conditions that you suggest were found practicable) they would necessarily compete with the Exchange Banks. The Exchange Banks have for many years rendered useful service in connection with Indian trade, and, though they have no claim to be protected from the competition of other banks working under similar conditions, it would seem that they might have some legitimate cause for complaint (and, indeed, that their usefulness might be diminished) if they were now, for the first time, exposed in their remittance transactions to the competition of the Presidency Banks, which, as custodians of the Government balances, are in receipt of valuable aid from the State.

9 Your other proposals for removing existing restrictions on the business of the Banks are to allow them—

- (a) to deal in securities issued by State-aided railways, such as branch lines constructed on rebate terms, and in securities issued by district boards,
- (b) to make loans and advances on other than personal security for a period not exceeding six months,
- (c) to grant overdrafts up to Rs 10,000 (or any lower limit that may be prescribed by byelaw),
- (d) to take over (subject to the sanction of the Governor-General in Council in each case) the capital, assets, and business of any other

bank in British India, provided that after the purchase the business shall be carried on in accordance with the provisions of the Presidency Banks Act,

- (e) to advance money on the joint and several promissory note of two or more persons unconnected in business,
- (f) to lend money (subject to the previous sanction of the Local Government, and for a period not exceeding six months) to the Court of Wards in respect of estates under management

You also propose—

- (g) to allow the Bank of Madras to lend, on Ceylon Government securities, resources raised in Ceylon,
- (h) to remove the existing limitation (expressed in Section 14 of the Presidency Banks Act) on the capital of each bank

You consider that it would be necessary, if all your proposals were approved, that the following changes should be made in the position of the Banks, viz,—

- (i) that power should be given by law to the Government of India to annul any particular election of auditors,
- (j) that the Banks should undertake to keep a minimum balance equal to 33 per cent of all their liabilities (other than Savings Bank balances) payable at call or within one month, and that they should further undertake (in the event of the balance of any Bank falling below that minimum) to make good the deficiency, within such time as the Government may direct, either by taking a loan from Government at 6 per cent, or at Bank rate, whichever may be higher, or by depositing gold with the Bank of England in London, and, if so required by the Government, expending such gold in the purchase of telegraphic transfers from the Secretary of State

10 I am willing that the alterations lettered (a) to (h) should be made in the existing law. In view of the postponement of a decision on the question of admitting the Presidency Banks to the privileges now enjoyed by the Exchange Banks, it is possible that they may now object to the condition lettered (i), and, if this should be the case, I do not think that the matter should be further pressed. It will be necessary to modify condition (j), for, in view of the postponement just mentioned, it would be useless for the present to mention the deposit of gold in London and the purchase of telegraphic transfers by the Presidency Banks, and the only practical resource that can be specified is for the Banks to borrow from the Government balances. I think that it would be inadvisable that an arrangement should be made between your Government and the Banks depending for its effectiveness on your willingness to place money at their disposal when their own cash resources fall below a certain limit. It would, in my opinion, be preferable that you should ascertain whether the Banks are willing to undertake to keep the minimum balance that you suggest, but that you should propose no stipulation regarding the method of making good any deficiency. If the Banks object to the condition, in this simple form, I am willing that it should be dropped.

Enclosure No 1.

F 8216.

Dated the 30th November 1904.

From L Abrahams, Esq., Financial Secretary, India Office, to the Chairman, National Bank of India, Bishopsgate Street Within, E.C., Chartered Bank of India, Australia, and China, Threadneedle Street, E.C., Hong Kong and Shanghai Banking Corporation, 31, Lombard Street, E.C., Mercantile Bank of India, 40, Threadneedle Street, E.C.

(Private)

I am directed by Mr Brodrick to inform you that he is in correspondence with the Government of India regarding certain suggestions that have been made for the alteration of the Presidency Banks Act.

You are, no doubt, aware that several of the witnesses who appeared before the Indian Currency Committee of 1898-99 drew attention to the periods of stringency which had recently prevailed in Calcutta and Bombay, and that the Committee observed in its report that "it may be questioned whether banking arrangements in India might not with advantage be strengthened and adjusted to the growing requirements of Indian trade"

Some of the suggestions now under consideration relate to this question. It has been proposed (1) That the Presidency Banks should be allowed, when the Bank rate in India is 6 per cent or higher, to borrow in London for the purpose of remitting funds to India, (2) that the Banks should be permitted to deal in foreign bills so far as is necessary to enable them to remit the borrowed money to or from India, but that they should be required to make their remittances in such form as may be approved by the Government authorities in each case.

It has also been suggested that the Banks should be allowed to draw sterling drafts on London for the home remittances of their customers, subject to a limit of 200*l* in each case.

Before arriving at a decision on the proposals, Mr Brodrick would be glad to be informed whether you have any observations to make on that portion of them which is summarised above.

Enclosure No 2

Dated 8th December 1904

From Sir T Jackson, Chairman, Hong Kong and Shanghai Banking Corporation, to L Abrahams, Esq, Financial Secretary, India Office

I beg to acknowledge your letter of the 30th ultimo, advising me that correspondence has been opened with the Government of India regarding certain suggestions that have been made for the alteration of the Presidency Banks Act.

You call attention to the evidence given before the Indian Currency Committee of 1898-99, which, alluding to the money stringency recently experienced, says "it may be questioned whether banking arrangements in India might not with advantage be strengthened and adjusted to the growing requirements of Indian trade," and it is suggested that the Presidency Banks should be allowed, when the Bank rate in India is 6 per cent or higher, to borrow in London for the purpose of remitting funds to India, and that the Banks should be permitted to deal in foreign bills so far as is necessary to enable them to remit the borrowed money to or from India.

If the query expressed above was justified at that time, I have no hesitation in saying that India now enjoys all the banking facilities necessary for the carrying on of her great commerce on the most favourable conditions.

Up to the date of the Currency Committee's Report, the Indian money market was subject to periods of great stringency, and it frequently happened that the Presidency Banks were unable to render assistance on any terms, even by loans on Government securities, while 12 per cent was quite a common rate at certain times of the year.

Since the date of the Report the official rate in Bombay has touched 9 per cent once for a short time in 1900, and again for a couple of weeks in 1901, but in Calcutta the Bank rate never exceeded 8 per cent. The average for the four years was 5 18 per cent in Bombay and 5 14 per cent in Calcutta.

When the Currency Committee was sitting, 6 per cent. was looked upon as a normal rate in India. The improved conditions shown above have been brought about by the firm establishment of the Indian Government currency reform, and especially by the enlightened policy of the Indian Council in meeting freely the demand for remittances to India. So long as that policy is adhered to, there is no danger of any severe stringency in the Indian money market, and it is a policy profitable to the Government as

well as beneficial to India, as increased demand means a proportionately better price

With that facility, and the option of getting rupees in exchange for gold shipments, the Exchange Banks have been able to finance the large foreign trade of India, without strain and on very favourable terms to the mercantile community. Consequently I maintain that the existing machinery is quite adequate, and that there is no occasion to make any change.

If the Presidency Banks find their resources are not sufficient to deal adequately with the internal trade of the country, the proper remedy would appear to be to increase their capital, rather than by borrowing from time to time in London. If the required capital could not be found in India, I see no objection to their placing shares in London and remitting the funds to India, as that would involve only one or two transactions. On the other hand, if the Presidency Banks were authorised to borrow on this side, the operations would be apt to have a disturbing effect on our money market, and might even clash with the issue of Indian Government loans and Treasury bills.

Money so borrowed would have to be remitted in gold or Council bills, as, in all probability, it would be through the latter channel, it would be depriving the Exchange Banks by so much of the means upon which they mainly rely for financing the export trade. When the loans came to be repaid, the Presidency Banks would be keen competitors for bills in India, with the inevitable result of depressing exchange, and so preventing the Indian Council from getting so favourable a rate for their bills as otherwise they would have reason to expect.

I therefore think it is clear that there are strong objections to the Presidency Banks borrowing money, temporarily, in London to supply the wants of India, and I think I have shown that there is now no occasion for such measures, and that, if adopted, they would be likely to do more harm than good.

It also seems to me that there would be no advantage to the public if the Presidency Banks were allowed to sell bills on London, even for small amounts, whilst it would be inflicting an injury on the Exchange Banks.

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Enclosure No 3

From Sir A. Wilson, Chairman Mercantile Bank of India, Limited, to  
L. Abrahams, Esq., Financial Secretary, India Office

8th December 1904

I have to acknowledge your letter of 30th November addressed to me by direction of Mr Brodrick.

You mention in this letter that Mr Brodrick is in correspondence with the Government of India regarding certain suggestions that have been made for the alteration of the Presidency Banks Act. Some of these suggestions deal with the possibility of strengthening the banking arrangements of India by affording increased facilities to the Presidency Banks for conducting exchange operations between India and England. These facilities, I understand, would include the power to contract loans in London for the purpose of remittance to India whenever the bank rate in India was 6 per cent or higher, and permission to deal in foreign bills of exchange so far as may be necessary to remit such borrowed money to and from India. There is also the suggestion that the Presidency Banks should have somewhat more extended powers in connection with the privilege they already possess of providing drafts on London for constituents' family remittances.

The supposed necessity for such alteration and extension in the power and authority of the Presidency Banks appears to be advocated on public grounds founded, so far as I can see, solely on some evidence tendered before the Indian Currency Committee of 1898-99, in which attention was drawn to periods of stringency which had recently prevailed in Calcutta

and Bombay. This evidence pointed, in the view of that Committee, to a "possible necessity of adjusting banking arrangements to the growing requirements of Indian trade." I have not before me the report of this Committee, but I am perfectly certain that there is nothing in it pointing to a condition of things which could have been in the slightest degree remedied or mitigated by the extension of powers of the Presidency Banks mentioned above.

To explain what I mean it is necessary to go back to the period of the closing of the mints in 1893. In that year the mints were closed to the public and the free coinage of silver stopped. In substitution thereof the Government notified that the Indian mints were authorised to receive gold and sovereigns in exchange for rupees on the basis of 1s 4d per rupee, and it retained for the future in its own hands the power to coin and issue on that basis whatever additional silver currency might from time to time be required.

But these currency measures were by no means an immediate success. Throughout the years 1893, 1894, 1895, 1896, 1897, 1898 not a single sovereign was tendered to the Government to be exchanged for 15 rupees, and for the greater portion of that period exchange ruled far below the point at which such an operation became possible, viz, 1s 4d. Gradually, however, the total cessation of fresh coinage began to tell, and towards the end of 1896 the severe famine of that period helped the upward movement of exchange by creating an abnormal demand for money in India.

It was under these circumstances that, in 1897 and 1898, the period of severe monetary pressure referred to in your letter occurred. In 1899 confidence in the success of the new currency measures began to increase, and since that year stability of exchange on a gold basis has been maintained. The provisions established by the Currency Act of 1899 making the sovereign a legal tender, and providing for all necessary extension of silver currency, have been in constant operation and are working smoothly and satisfactorily, and a condition of things now exists which makes any repetition of the severe monetary pressure of 1897-98 very unlikely and in fact impossible in the future.

In support of this I here give you the average rate of discount of the principal State Bank of India, the Bank of Bengal, for the period under review. It is as follows—

1896 average rate -	-	-	-	-	-	5 674
1897 "	-	-	-	-	-	7 912
1898 "	-	-	-	-	-	8 049
1899 "	-	-	-	-	-	5 910
1900 "	-	-	-	-	-	5 334
1901 "	-	-	-	-	-	5 477
1902 "	-	-	-	-	-	4 855
1903 "	-	-	-	-	-	4 866
1904 "	-	-	-	-	-	4 782

These figures show clearly the contrast between the monetary conditions during the period of pressure in 1897 and 1898 referred to, and those which have ruled subsequent to the passing of the Currency Act of 1899.

These facts are, no doubt, well known to Mr Brodrick and yourself, but I recapitulate them because it is necessary to show the complete fallacy of the suggestion which has been evidently conveyed to you that the abnormal pressure of 1897 and 1898 arose from causes which would have been prevented or cured or mitigated in the slightest degree by giving power to the Presidency Banks to borrow money in London and engage in exchange operations connected with the handling of such loans. It was not the absence of banks or banking capital for dealing with the foreign exchange business of India which led up to the stringency of 1897-98. It was the abnormal demand for money in India itself consequent on famine requirements occurring at a time when two of the chief extraneous methods of relieving that stringency were stopped, viz, the importation and coinage of silver into rupees, which has been stopped as already explained, and the Secretary of State's weekly drawings of Council Bills. During 1897-98

the latter were much curtailed and even temporarily suspended in consequence of the heavy famine expenditure of that period

The Presidency Banks, like other banking institutions, could certainly at that time, had their powers permitted, have raised sterling loans in London, but that would not have relieved the stringency in India or helped the position there in the slightest degree, because it would not have increased by one rupee the then existing facilities for converting and transmitting the proceeds of such loans into Indian currency. The remedy lay in the successful completion of the currency policy initiated in 1893, and which has been in smooth practical working since 1899. Under these conditions the position of 1897-98 can never recur.

The question of granting to the Presidency Banks power to borrow money in London for transmission to and employment in India, and of engaging in operations of exchange in connection with the transmission and employment of such money, is not brought forward for the first time. On several occasions these powers have been applied for, and on each occasion the application has been refused as incompatible with the principles and conditions under which State-aided Banks should exist. I have shown clearly, I think, that no public advantage would be gained and no public interest served by granting them. It would be an anomaly in State banking to find the Presidency Banks of India, which depend for their prestige and resources so largely on their State connection, turning their attention and their resources from the object of their existence—the facilitating the internal trade and requirements of India (a sufficiently wide field one would imagine), to embark in operations of foreign exchange. It would, further, be a serious matter for the existing Exchange Banks, and very unfair to them if these State Banks, backed by their State support and the large amounts of public funds placed at their disposal by the State free of interest, should be authorised to compete keenly, and with all the power that their privileged position gives them, with those institutions which have hitherto conducted that business to the satisfaction of the mercantile community.

Enclosure No 4.

From R. Campbell, Esq., Chairman National Bank of India, to the Secretary of State for India.

8th December 1904

I have the honour to acknowledge receipt of Mr. Abrahams' letter of the 30th ultimo, and to thank you for communicating to me the suggestions which have been made for enlarging the powers of the Presidency Banks so as to permit them to deal in sterling exchange.

The proposal that these banks should be allowed to engage in sterling exchange business is not a new one. It has been put forward time after time during the last 50 years, and with a small exception, allowing them, within certain restrictions (which we maintain should be adhered to) to make customers' remittances to England, it has been steadily vetoed by the Government of India.

There appears to be no reason at the present time why this well-considered veto should be withdrawn. On the contrary, existing conditions appear to make the present a peculiarly inopportune time for again putting forward the suggestion. The strongest plea in its favour, a plea which is alluded to in your letter, has always been that with the London market thrown open to them for raising money, and with liberty to operate in sterling exchange, the Presidency Banks would be enabled to prevent or alleviate the periods of monetary stringency which formerly affected Indian trade during certain months of almost every year.

Happily the successful working of the Indian Currency Act of 1899 has removed this grievance. By establishing a gold standard with the resulting stability of sterling exchange it has facilitated the free interchange of gold between England and India, enabling the exchange Banks to keep Indian



trade promptly supplied with all the currency required, and thus preventing the periodical stringency which had formerly to be reckoned with.

In proof of this it is only necessary to point to the rates of interest ruling in India for the four years previous to, and the four years since the passing of the Act, of which a diagram is appended. These figures show not only a remarkable contrast in the interest rates during the busy season of these two periods, but an increasing tendency towards a steadier and easier money market due to the continued influence of that measure. For the last four or five years there has been no real monetary stringency in India, any trade demand for additional currency during the busy season having been promptly met by imports of sovereigns. The Exchange Banks with their large sterling resources in the shape of capital and deposits, amounting to probably not less than twenty millions sterling, have shown themselves ready and able to meet and even anticipate all India's requirements with the result that, for some years past, Indian trade has been conducted with ease and comfort, and without the drawbacks incident to monetary stringency and oppressive interest charges.

Deprived, as it now is, of the only reason which could be urged in its favour, it is difficult to see why this proposal should again be brought forward. If, before the Currency Act came into operation, no sufficient reason could be urged to outweigh the objections to the Presidency Banks operating in sterling exchange, why should permission be accorded now, when the only strong argument in its favour has ceased to exist? It cannot be alleged that the Exchange Banks, whose business it has been for the past 50 years to finance the external trade of India, are incompetent to do so, and no complaint is heard of inefficiency or oppressive charges. We can only conclude therefore that, with less reason than ever, this is only another renewal of the attempt to get for the Presidency Banks the permission they have so long desired to operate in sterling exchange. The Exchange Banks have felt it their duty to oppose this demand on every occasion, their latest protest being addressed to the Government of India so recently as January 1900.

We maintain that the legitimate function of the Presidency Banks is to finance the internal trade of the country, for which they enjoy special privileges in the shape of large amounts of public money without any interest charge. We see no reason to believe that the resources at their command are insufficient for the purpose, and we respectfully, but earnestly, protest against their being permitted to go outside of their legitimate sphere, and engage in sterling exchange operations on the plea of gaining access to the London Money Market. The Exchange Banks do not deprecate ordinary competition by competitors on the same level as themselves. What we do strongly object to, and protest against, is State-aided competition, competition on the part of the Presidency Banks enjoying the prestige of the Government bankers, and with immense sums of public money at their disposal free of charge, while we are handicapped by having to pay interest on the whole of our deposits. We repeat that the Presidency Banks should confine themselves to their legitimate business, leaving the negotiation of sterling bills to the Exchange Banks, whose business it is, and who, by reason of their organisation and their London establishments, are best able to appreciate the risks attaching thereto.

We do not gather from your letter whether any and what limit is to be placed on the extent to which the proposed operations may be carried, or to the frequency with which they may be repeated. So far as we know, they might not only be of great magnitude but of constant repetition. By bringing in money from London, covering by sterling bills as soon as possible, repeating the operation and again covering, and so on, the Banks might for anything we know be constant huge operators in sterling exchange so long as the rate of interest, which they themselves fix, is at or over 6 per cent. We can hardly suppose that such a course would be within the spirit of the desired permission, but we mention it to show how easily the liberty might be abused and how the introduction of the thin end of the wedge would surely lead to further encroachments.

Should the Government by allowing the Presidency Banks to go outside their proper sphere and operate in sterling exchange now depart from the principle to which, as I shall presently show, they have hitherto adhered, that the Government business should not be entrusted to a bank which deals in foreign exchange, if this principle is now to be abandoned and if exchange banking is no longer to be regarded as a disqualification for Government business, it seems not an unreasonable suggestion that in that case the Exchange Banks should be allowed to compete for a share of the Government business, and the Government balances on such terms as the Government might consider satisfactory

The attitude of the Government of India on this question has always been perfectly consistent. On one of the occasions when it was raised, more than 40 years ago, the then Secretary of State, Sir Charles Wood (afterwards Lord Halifax), expressed himself very strongly in regard to it. In a Despatch to the Government of India of 16th September 1862, he said —

“The question of giving a power to deal in foreign exchanges to the Bank of Bengal, which is now proposed, was formerly and on different occasions considered, and that power was always withheld” “Any Bank to which the balances and Treasury business of the Government are to be entrusted must be restricted to legitimate banking operations such as those transacted by the Bank of England or by the Bank of Bengal as heretofore constituted”

And in their reply the Government of India remarked.—

“We entirely concur with your opinion as to the concession to the three Banks of any general power to deal in foreign exchanges”

Again on the 10th June 1863 Sir Charles Wood wrote —

“I cannot, however, give up the condition on which alone any bank can be entrusted with the Government business and that is that it should be debarred from dealing at all in foreign exchanges”

And on 4th January 1864, on the arrangements between the Government and the Bank of Bengal —

“V The Bank to give up dealing in foreign exchanges”

We cannot burden this letter with further quotations from these Despatches, but their full text will be found in a Parliamentary Paper, No 109, published on 7th March 1864

These extracts clearly show the decided attitude of the Government of India on this question up to the present time, and now that less reason than ever, in fact no valid reason at all, can be urged in favour of the proposed new departure, we trust that the Government will continue to adhere to their well-considered policy. Any concession of principle now would be sure to lead to larger demands for wider scope later on

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Enclosure No 5

From J H Gwyther, Esq, Chairman Chartered Bank of India, Australia and China, to L. Abrahams, Esq, Financial Secretary, India Office

9th December 1904

I have to acknowledge receipt of your personal letter of 30th November regarding certain suggestions that have been made for an alteration in the Presidency Banks Act.

The Exchange Banks, in common with the Government of India and the Presidency Banks, have every desire to foster the commercial and agricultural interests of India, and therefore the following remarks must be considered subordinate thereto.

The Exchange Banks have practically financed the whole export and import trade of India for many years, and would naturally view with apprehension any legislation which would have the effect of placing the Presidency Banks in a position to compete with them for exchange business which may reasonably be regarded as the particular province of the Eastern Exchange Banks

Since the new currency laws, these Banks have been more disposed to send money to India for local purposes, and the recent policy of the India Council in regulating the sale of their bills according to the requirements of trade has very much lessened the probability of extreme rates of interest for money, for more than short periods

I assume that the proposal to increase the lending powers of the Presidency Banks, by authorising them to borrow in England, has reference to the alleged necessity for additional resources to finance the internal trade of India, as the Exchange Banks, I believe, are fully sufficient to handle the external trade of the country. The discussion is therefore narrowed down to the question of what is the best method of creating the funds said to be required by the Presidency Banks. If the deficiency is actual and frequent, there are three ways of supplying the deficiency —

1st Additional capital

2nd An increase in local deposits, to be attracted by offering favourable rates of interest

3rd An increase by the Government of India of their deposits with the Presidency Banks to a reasonable extent, and beyond a fixed maximum with approved security

As regards the proposal to borrow in this country, I of course assume that the Presidency Banks would not be allowed to remit to London their holdings of Government Securities, as such a divorcement between liabilities and assets would be most unbusinesslike and fraught with danger in times of financial difficulty. It follows, therefore, that the only method of raising funds in this country would be by advertising for sterling fixed deposits, as is the practice of the Exchange Banks, who allow, at the present time, interest at the rate of 4 per cent per annum for money placed with them for 12 months fixed. With shipping charges to and from India, this would mean a cost of over 5 per cent per annum.

Even assuming that the Presidency Banks could borrow for six months at  $3\frac{1}{2}$  per cent per annum, this would be equal to a cost of  $5\frac{1}{2}$  per cent per annum taking shipping charges into account.

In considering the question of possible profit, it must be borne in mind that the action of the Banks, in attracting this money to India for the busy export season, would naturally militate against their being able to secure a profitable return on the money invested.

With reference to the method of remitting to India the funds raised in this country, I am of opinion that the Presidency Banks should be restricted to purchases of Council Bills, and returns should be confined to shipments of sovereigns, thereby preventing the Presidency Banks from entering into competition with the Exchange Banks in India.

With reference to the further question of allowing the Presidency Banks to sell drafts on London for the requirements of their customers, I feel that the concession, although, as at present restricted, it is of no great importance, would be liable to gradual enlargement, and so would create in the minds of the Exchange Banks suspicion and friction.

P S—You may perhaps be interested in perusing the references which I have made from time to time, in my speeches as Chairman of this Bank, to the subjects referred to above, and I enclose four of these herewith, together with copy of a memorial addressed to Lord Curzon by the Exchange Banks of Calcutta, dated 27th January 1900

## No 31

Telegram from the VICEROY to the SECRETARY OF STATE FOR INDIA, dated  
3rd March 1905

Your Financial Despatch No 15, 3rd February last    Presidency Banks  
Can we communicate to Presidency Banks the Exchange Banks' letters  
enclosed

## No 32

Telegram from the SECRETARY OF STATE FOR INDIA to the VICEROY, Finance  
Department, dated 17th March 1905

Your telegram of the 3rd March    Presidency Banks    No objection, on  
the understanding that if correspondence on the subject continues, the  
Exchange Banks should be allowed to see any further letters from  
Presidency Banks relative to borrowing in England and Exchange  
transactions

## No 351, dated Simla, the 19th October, 1905

From the GOVERNMENT OF INDIA, Finance Department, to the SECRETARY OF  
STATE FOR INDIA

WE have the honour again to address you regarding our proposals  
for the relaxation of existing restrictions on the business of the Presidency  
Banks

2 In your Despatch No 13, dated 3rd February 1905, you sanctioned  
our less important recommendations on this subject but took exception to  
our main proposal to confer upon the banks a limited power of borrowing  
in sterling and to the conditions regarding audit and the maintenance of a  
minimum balance which it was proposed to attach to that concession. You  
also forwarded representations from the Exchange Banks whom you had  
thought it desirable to consult. Availing ourselves of the permission  
accorded in your telegram of the 17th March, we communicated these letters  
and the decisions announced in your despatch to the Directors of the  
Presidency Banks, and we now forward the correspondence for your infor-  
mation. We consider that it contains an effective reply to the claims put  
forward by the Exchange Banks, and if the question at issue were merely  
that of adjusting the conflicting demands of competing private institutions  
we should be content to rest the case of the Presidency Banks upon their  
own statement of it. But the question of access to London is so intimately  
connected with our own policy and engagements in matters of commercial  
finance and affects such wide monetary interests that we feel it incumbent on  
us to submit an independent justification of our proposals.

3 One of the main objects of currency reform was the attraction of  
British capital to India, and we have always recognised that if this advan-  
tage was to be fully secured the establishment of a gold standard must be  
followed by supplementary action. We believe that the creation of a special  
Department of Commerce and Industry, and the attitude towards commer-  
cial questions of which that measure is typical, will ultimately do much to  
attract the capital required for permanent investment in industrial under-  
takings. But the machinery of the banking system still remains ill-adapted  
to the fluctuating needs of the Indian money markets, in which the supply  
of cheap money is of the most vital importance. The embarrassments  
arising from an inadequate supply of loanable capital form the burden of  
the whole of the commercial evidence recorded by the Currency Committee  
of 1898, and it was this want which Lord George Hamilton undertook to  
meet when looking forward to a development of banking facilities which  
would "give to India the fullest benefit, both monetary and commercial, of  
" her direct connection with the cheapest, the largest and the most fructi-  
" fying money market in the world ".\* This requirement was pressed upon us

\* Speech in House of Commons on 8th August 1899

by the Bengal Chamber of Commerce in almost identical terms, and the same attitude was adopted by the Chambers at Bombay and Madras. We have as yet done nothing to meet their unanimous demand beyond initiating a debate which has now extended over five years. In this interval we have tested public opinion and gained experience of the new conditions which was necessarily wanting at the outset. The result has been to reduce our proposed reforms to a minimum which in 1900 would have been considered inadequate. If our matured and moderate proposals are now rejected, our work will remain manifestly incomplete and legitimate expectations will be disappointed.

4 Regarding the removal of all needless and artificial restrictions which impede the natural flow of capital as an evident and accepted obligation, we cannot rest satisfied with an improvement in money market conditions which is mainly noteworthy by comparison with the abnormal situation produced by the closing of the mints. It was obvious that the difficulties of the transitional period would be appreciably relieved, without further intervention on our part, from the moment fixity of exchange was established. But it is also clear that the full amount of relief cannot be obtained if the privilege of importing British capital is to be limited to the representatives of a particular section of the trading community, as the Exchange Banks claim to be. Indeed, so far as this point is concerned, it makes little difference whether the foreign banks confine themselves strictly to their special field, or engage also in general business. The exclusion of the leading local banks must in either case tend to raise the price of money above its natural level.

5 This presumption finds support in the maximum bank rates of 7 and 8 per cent which recur in every busy season. The difference between these rates and those obtaining in London is more than can be explained by the cost of remittance between England and India. The normal range of fluctuation (5 per cent) is also excessive, the more so as the Indian markets are not exposed to foreign demands. The average bank rate since 1899 is not lower than rates which have frequently ruled in earlier years. In other great trading countries the average rate has rapidly fallen. The possibility of further improvement is also suggested by the remarkably small re-export of gold which, convenient as it may have been to us in the tentative stages of our currency policy, points nevertheless to a reluctance on the part of existing agencies for the import of capital to bring it out for the short periods when it is most required. It is this deficiency which the Presidency Banks are prepared to supply, not indeed with any expectation of materially increasing their dividends, but in virtue of their acknowledged responsibility as banks of last resort.

6 Even if no further reduction in bank rates were to be expected, we should still hesitate to base our permanent arrangements on the experience of a few specially fortunate years. The Bank of Bombay has pointed out that recent additions to the supply of money are probably connected with the great excess of exports over imports, the large payments due to India being intercepted in the trading centres. Between 1898 and 1903, the private deposits of the Presidency and other Indian banks, together with the Indian deposits of the Exchange Banks, increased from Rs 27 crores to Rs 44½ crores, that is, by 64 per cent. In the previous quinquennium the increase was less than Rs 3 crores. We cannot confidently rely on the maintenance of this rapid growth of loanable capital. Nor can we assume that the Indian markets will never again have to pass through those times of stringency and crisis which are of periodical recurrence elsewhere.

7 For the reasons set forth in the foregoing paragraphs we hold that the grant of sterling borrowing powers to the Presidency Banks is essential to the further reduction and equalization of market rates, that recent conditions, while in some respects abnormally favourable, are susceptible of improvement, and that in any case provision should be made for exceptional emergencies. This last point is closely connected with the aspect of the question to which we now pass on—the effect of the refusal of access to London on the status of the Presidency Banks.

8 For a century past the Government of India have actively assisted in building up a strong and centralized banking system. In pursuance of

this policy—of which many other illustrations could be given—they have acknowledged from first to last the predominant position of the Presidency Banks as the banks of ultimate resort in this country. up to 1862 by the exclusive recognition accorded to their note issues, these being on a fiduciary basis, from that year till 1876 by placing with them practically the whole of the unemployed Government balances. After the establishment of the Reserve Treasuries (in 1876 and 1879) the Presidency Banks were still alone able to obtain loans from the Government, and, though the unrestricted grant of such loans became impossible after 1893, it was settled that in the event of their being granted on occasions of severe stringency, Government funds could only be placed at the disposal of the public through the medium of the Presidency Banks.

In the changed conditions introduced by the present currency system—at any rate for so long as we retain its machinery in our own hands—the system of loans and advances naturally disappears under ordinary circumstances. Our surplus rupee balances must necessarily be held in reserve to meet the possible demands of importers of gold. The consequence is that while rival institutions by borrowing or transferring capital from London can command the Government's whole resources, the Presidency Banks alone, who formerly had the first claim, are now deprived of the means of providing for the exceptional demands which it is their special function to meet.

9 The older method by which the commercial community were taught to look to the Government for an appreciable part of the additional funds required in the busy season, and to call for State intervention on occasions of emergency, was inadequate and in some respects dangerous, and we shall be glad to replace it by an automatic system of dependence upon the sterling markets. But if we close the source of supply upon which the Presidency Banks formerly relied and continue to exclude them from the other, their position cannot but be seriously affected, and especially so, if the Exchange Banks should at any time make a systematic use of the advantages which they will then possess. We should view with grave apprehension any decision which thus tended to substitute in banking matters an irresponsible for a responsible agency. The Exchange Banks are not exclusively attached to India, they receive no special privileges from the Indian Government, and we cannot expect them to acknowledge any obligations either to ourselves or to the Indian public. In this connection we may refer to the evidence given before the Currency Committee of 1898\* regarding the transfer of their capital to England during the currency difficulties of 1893-99, and to our despatch No. 56, dated 22nd February 1900, which describes their action in 1899 when a serious commercial crisis was threatened in Bombay. The incident here referred to is specially relevant as an example of the possible results of hampering the responsible local banks and relying upon the Exchange Banks to fill their place. This exclusive regard for their private interests is equally noticeable in their memorial on the Central Bank question in 1900 and in the present correspondence. We consider such an attitude to be perfectly legitimate, though it appears to us to assume an extravagant form in the objections to the reasonable proposal that the Presidency Banks should be allowed to remit small sums on behalf of their customers and in the argument that the occasional borrowings of the Presidency Banks might disturb the London market. But it justifies our reluctance to rely upon the Exchange Banks, under all circumstances, to discharge the functions which naturally belong to a Central Bank.

10 On these broad grounds we resubmit our proposal to admit the Presidency Banks under suitable restrictions to the London market. We hold strongly that the question is one to be decided solely on considerations of the public interest. But in deference to your wishes we have again examined it with special reference to the representations now before us, and are satisfied that additional limitations would reduce it to a nullity, that it involves no unfair or indeed appreciable competition, and that in whatever serious competition already exists it is the Exchange Banks who are the aggressors.

11 On the first of these three points we have merely to note that if the Presidency Banks are given a free hand (subject to the Comptroller General's

\* C 9037, Questions 1811-5, 1958-62

control) in the management of their remittances, it is probable that they will ordinarily make use of the agency of the Exchange Banks themselves. But if we confine them to that agency or to remittance by shipment of gold we retain in a modified form the very restriction which it is our object to remove. The margin of profit on the Banks' sterling operations must in any case be narrow, and we ought not in the absence of proved necessity to create opportunities for combination which might further reduce it.

12 As regards the question of competition it is obvious that under the conditions which we propose the borrowing operations of the Presidency Banks will be so intermittent as to make it impossible for them to obtain a permanent hold upon the clientèle of the Exchange Banks, while the powers of control which are to be entrusted to the Comptroller General will effectually prohibit those purely speculative transactions which have been fancifully suggested as the ulterior object which the Presidency Banks have in view. There will of course be slightly increased competition for bills in both directions, but not more than if the Exchange Banks had brought out the additional funds themselves. In making this a grievance the latter practically abandon their position that they are themselves prepared to keep the market fully supplied.

13 On the other hand we have to recognise the fact that the Presidency Banks are already exposed to competition in what is supposed to be their exclusive sphere of influence. As the Bank of Bombay points out, "all the Exchange Banks consulted compete more or less keenly in the internal trade and this competition has been steadily growing and extending." This statement is confirmed by the letters of the Banks of Bengal and Madras, and by the expressed readiness of one of the Exchange Banks to send out funds "for local purposes." It is within our own knowledge that one of them has been able to open branches in the Mofassal at places where the Presidency Banks are unable to work at a profit under the statutory restrictions imposed upon them, and we believe that this tendency to encroachment is in accordance with experience elsewhere. These considerations give point to the apprehensions expressed in an earlier paragraph, and should at any rate be regarded as estopping the Exchange Banks from pleading for artificial methods of protection.

14 If you are satisfied, as we trust you may be, that the opposition to our main proposal cannot be sustained, it will remain to consider whether that proposal should be accompanied by the provisions relating to the maintenance of a minimum balance which we originally submitted to you. We are aware of the objections to rigid limitations of this kind, and in particular we realise the difficulty, to which you have called attention, of devising a practicable penalty for default, and as we are not prepared to assert that the suggested precaution is essential, we are willing to waive it if you consider it inexpedient. The true safeguards on the exercise by the Banks of larger powers are stability of exchange and the imposition of such restrictions as will limit their sterling transactions to the operations directly connected with borrowing and the remittance of the borrowed funds. Fixity of exchange is now securely established, and it will hardly be seriously contended that the arguments by which the concession was opposed in earlier days are relevant to the present discussion. The only other objection which can claim attention is the possible risk of the Banks' resources being locked up in London when required in India. It would be necessary of course to allow them to hold securities in London, and such securities would be more readily convertible than if held in India. But they would not be permitted to receive deposits or engage in general banking business, or to borrow for an indefinite term. We did not propose any definite period for the repayment of loans raised in England in our previous despatch, but we would now suggest that such repayment should take place within six months. Under these conditions, which are ignored in the correspondence forwarded with your Despatch, the Banks will be exposed to no unanticipated demands in London and will be in a stronger position in the event of pressure in India.

15 We have to add that until the receipt of your further orders we propose to defer action on the minor concessions which you have sanctioned, and also that we have ascertained from the Directors of the Banks that they

will not object to the communication of their recent letters to the Exchange Banks whom you previously consulted, if you should think further consultation necessary

Enclosure No 1

No 2035-A, dated the 18th April 1905

From W S MEYER, Esq, SECRETARY to GOVERNMENT of INDIA, Finance Department, to (1) the SECRETARY and TREASURER, Bank of BENGAL, (2) the SECRETARY and TREASURER, Bank of BOMBAY, (3) the SECRETARY and TREASURER, Bank of MADRAS

With reference to the correspondence ending with your letters\* on the subject of the amendment of the Presidency Banks Act, I am directed to say that representatives of certain of the Exchange Banks were consulted by the India Office in November last with regard to the following proposals —

- (1) That the Presidency Banks should be allowed, when the bank rate in India is 6 per cent or higher, to borrow in London for the purpose of remitting funds to India,
- (2) That the Banks should be permitted to deal in foreign bills so far as is necessary to enable them to remit the borrowed money to or from India, but that they should be required to make their remittances in such form as may be approved by the Government authorities in each case, and
- (3) That the Banks should be allowed to draw sterling drafts on London for the home remittances of their customers, subject to a limit of 200l in each case

2 I am to enclose a copy of the criticisms passed by the Exchange Banks on these proposals, and to enquire whether the Directors of the Bank of wish to make any further observations on the subject

3 I am further to say that it has been ascertained that His Majesty's Secretary of State for India is prepared to assent to legislation conferring the following powers on the Presidency Banks, namely —

- (a) To deal in securities issued by State-aided railways such as branch lines constructed on rebate terms, and in securities issued by district boards.
- (b) To make loans and advances on other than personal security for a period not exceeding six months
- (c) To grant overdrafts up to Rs 10,000 (or any lower limit that may be prescribed by byelaw)
- (d) To take over (subject to the sanction of the Governor General in Council in each case) the capital, assets, and business of any other bank in British India, provided that after the purchase the business shall be carried on in accordance with the provisions of the Presidency Banks Act
- (e) To advance money on the joint, and several promissory note of two or more persons unconnected in business
- (f) To lend money (subject to the previous sanction of the Local Government, and for a period not exceeding six months) to the Court of Wards in respect of estates under management

4 The Secretary of State is also willing to agree to the removal of the existing limitation (expressed in the proviso to Section 14 of the Presidency Banks Act) on the capital of each bank [† and to allow the Bank of Madras to lend on Ceylon Government securities, resources raised in Ceylon]

5 The Government of India suggested that, in the event of all the above proposals being adopted, the following changes should be made in the position of the Banks, viz —

- (g) That power should be given by law to the Government to annul any particular election of auditors
- (h) That the Banks should undertake to keep a minimum balance equal to 33 per cent of all their liabilities (other than Savings Bank

\* (1) Dated 14th May 1904, (2) No. 189, dated 14th May 1904, (3) No G.P.L 122-7 dated 24th May 1904 (see pp. 488-9)

† To (3) only



balances) payable at call or within one month, and that they should further undertake (in the event of the balance of any Bank falling below that minimum) to make good the deficiency, within such time as the Government may direct, either by taking a loan from Government at 6 per cent, or at Bank rate, whichever may be higher, or by depositing gold with the Bank of England in London, and, if so required by the Government, expending such gold in the purchase of telegraphic transfers from the Secretary of State

6 These changes had been agreed to by the Banks on condition that all the above concessions are granted, but the Directors may be unwilling to acquiesce in them if the proposed concessions are curtailed, and it is evident that, if the Banks are not allowed to borrow in London, proposal (h) will require modification. I am therefore to enquire, whether in the event of the proposals numbered (1) to (3) in the first paragraph of this letter being finally rejected and those enumerated in paragraphs 3 and 4 being adopted, the Directors of the Bank of (i) will still be willing to accept the proposed amendment in the law regarding the election of auditors, and (ii) will be prepared in place of proposal (h) to give an undertaking to keep the minimum balance specified in that proposal. If the Directors will give such an undertaking, the Government of India will not press for a stipulation regarding the precise method of making good any deficiency

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Enclosure No 2

From W D CRUICKSHANK, Esq, Secretary and Treasurer, Bank  
of Bengal, to the SECRETARY to the GOVERNMENT of INDIA,  
Finance Department, Simla

18th May 1905

I have the honour to acknowledge receipt of your letter No 2035-A of the 18th ultimo, with enclosures, relating to the proposed amendment of the Presidency Banks Act

You say that representatives of certain of the Exchange Banks were consulted by the India Office in November last with regard to the three proposals which are reproduced in the margin [see footnote], and in forwarding a copy of their criticisms you enquire whether the Directors of the Bank of Bengal wish to make any further observations on the subject. You also enquire whether, if three proposals were finally rejected, the Directors would still accept the proposed amendment allowing Government to annul elections of Auditors and would undertake to keep a minimum cash balance equal to 33 per cent of all liabilities of the Bank (other than Savings Bank balances) payable at call or within one month

In previous correspondence ending with your letter No 2874-A of 6th May 1904 and my reply thereto, the Government of India were most careful to explain their reasons for assenting to a resort to the London market. They accepted the contention that the Presidency Banks should be allowed a last resort in periods of stringency, but they determined that the exercise of the powers should be safeguarded by the conditions calculated to meet all possible objections. Access to the London market was therefore to be permitted only at times when there was a *real deficiency* of loanable capital in India. The Presidency Banks were to understand that it was not intended to encourage resort to that market as a speculative measure in anticipation of such a deficiency, consequently their borrowing in London could only take place when the Bank rates rose above a fixed limit, and when

\* (1) That the Presidency Banks should be allowed, when the bank rate in India is 6 per cent or higher, to borrow in London for the purpose of remitting funds to India.

(2) That the Banks should be permitted to deal in foreign bills so far as is necessary to enable them to remit the borrowed money to or from India, but that they should be required to make these remittances in such form as may be approved by the Government authorities in each case, and

(3) That the Banks should be allowed to draw sterling drafts on London for the home remittances of their customers subject to a limit of 2000 in each case.

loans from the Reserve Treasury were not available. The Government would also claim to control the mode of repayment of any sterling loan

This explanation of the intention of Government must have been considered by the Exchange Banks, but their criticisms do not attempt to deal with the injustice or undesirability of withholding from any Banking Institution the right to a last resort for the purpose of obtaining funds necessary for its business in times of stringency. The objections urged are apparently based mainly on two grounds—*first*, that periods of stringency are not now likely to arise having regard to the successful working of the new Currency laws and the resulting stability of sterling exchange, and, *secondly*, that remittances to London, whether in repayment of amounts borrowed or to the limited extent required for the Bank's private customers, would interfere with the operations of the Exchange Banks

Each of these objections is open to an obvious answer—*first*, if periods of stringency for which alone it is sought to provide will not occur, the necessity for resort to the London market will not arise, and the apprehension entertained must prove groundless, *second*, if the repayment of permitted sterling loans is to be controlled by Government, it will always be possible to arrange for the legitimate and natural business of the Exchange Banks not being interfered with. It appears to be conceded that remittances on behalf of customers to the limited extent proposed is not open to serious objection, but it is suggested that hereafter the limits may be exceeded and suspicion and fiction engendered

The Exchange Banks lay great stress on their ability to keep India amply supplied with funds, and are at some pains to define what they term the legitimate functions of themselves and the Presidency Banks respectively—those of the former being, they say, to finance the import and export trade, and of the latter to finance the internal trade of the country. The National Bank, which has already opened a number of branches in the interior, submits that the Exchange Banks with their large sterling resources have shown themselves ready and able to meet and even anticipate all India's requirements, while the Chartered Bank says "Since the new currency laws these (Exchange) Banks have been more disposed to send money to India for local purposes, and the recent policy of the Indian Council in regulating the sale of their bills according to the requirements of trade has very much lessened the probability of extreme rates of interest for more than 'short periods'." These Banks do not propose to confine their business within the limits they for the present define as legitimate, but they apparently consider that they should be free to finance internal as well external trade, while the operations of the Presidency Banks are to be so hampered in the field of local trade as to invite competition on favourable terms

The Directors do not question the ability of the Exchange Banks to keep India supplied with funds, seeing that they have the resources of the London market to rely on, indeed experience has shown that these Banks are in a position to flood the Indian money markets with a superabundance of money or to curtail supplies at their pleasure. There is reason, however, to doubt the willingness of the Exchange Banks to import funds when the Secretary of State's terms for bills and wire transfers are not to their liking, or when a rise in the rates of interest in the Indian money markets would suit them. On such occasions they undoubtedly look upon the Presidency Banks as their legitimate local resort, while the Government of India are at the same time concerned, and not unreasonably, lest the accommodation claimed by the Exchange Banks should interfere with the sale of Council bills. In such circumstances conditions of stringency become pronounced, the money market becomes strained, and it would undoubtedly be to the advantage of Government and the public if the Presidency Banks were permitted to relieve the strain by the prompt importation of funds from England

In the criticisms of the Exchange Banks reference is made to the Presidency Banks as "State Banks," to the large amounts of public money they enjoy free of interest, and to the prestige they gain by their connection with Government; but the disabilities which the Presidency Banks accept in order to retain these advantages, and the restrictions placed on their investments and mode of business are altogether ignored. The Exchange

Banks are probably also not aware of the expense and risk which the Government work entails

In offering these observations the Directors do not consider they are invited to deal specifically with the objections of each of the Banks consulted. It becomes undesirable to do so if the Directors are correct in their view that the imitations under which the right claimed was proposed to be conceded have been entirely overlooked. It is for instance beside the question to urge, as has been done by one of the Exchange Banks, that 40 years ago the Secretary of State and the Government of India were alike opposed to the concession of a *general power* to deal in foreign exchange, and that consistency requires that this view should now be adhered to on the ground that it is applicable to the strictly limited powers which the Presidency Banks seek to obtain.

I am therefore to urge respectfully that the grounds on which Government were prepared to meet the representations of the Presidency Banks still exist, and that no valid reason for denying the resort contemplated has been shown. I am also to say that the Directors trust that His Majesty's Secretary of State for India will not allow weight to suggestions of possible suspicion and friction, but that he will consent to release the Presidency Banks from the unreasonable position of being the only Banking Institutions in the British Empire which are debarred by legislation from drawing petty drafts on London for the convenience of their own customers.

The Directors see no objection to Government being empowered by law to annul any particular election of Auditors, provided the power is only exercised when a selection is not made from Public Accountants, and in order to meet the wishes of Government the Directors would be willing to undertake to keep the minimum cash balance suggested.

I am to add that the Directors note with satisfaction the Secretary of State's willingness to assent to legislation conferring the powers described in clauses 3 and 4 of your letter under acknowledgment. They have only to suggest that the words "general partnership" (as in the present Act) should be substituted for the word "business" at the end of clause 3 (e).

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Enclosure No 3

No 234, dated Bombay, the 8th June 1905

FROM J BEGGIE, Esq., Secretary and Treasurer, Bank of Bombay, to the  
SECRETARY TO THE GOVERNMENT OF INDIA, Finance Department, Simla

I have the honour to acknowledge receipt of your letter No 2035-A, dated 18th April last, on the subject of the proposed amendment of the Presidency Banks Act.

The first part of the letter states that representatives of certain of the Exchange Banks had been consulted by the India Office in November last with regard to the following proposals —

- (1) That the Presidency Banks should be allowed, when the Bank rate in India is '6 per cent or higher, to borrow in London for the purpose of remitting funds to India,
- (2) That the Banks should be permitted to deal in foreign bills so far as is necessary to enable them to remit the borrowed money to or from India, but that they should be required to make their remittances in such form as may be approved by the Government authorities in each case, and
- (3) That the Banks should be allowed to draw sterling drafts on London for the home remittances of their customers, subject to a limit of 200*l* in each case.

And you enclose a copy of the criticisms passed by the Exchange Banks on those proposals, and inquire whether the Directors wish to make any further observations on the subject.

In reply, I am instructed to tender the thanks of the Directors to the Government of India for communicating to them those criticisms, and for the opportunity afforded to them of replying thereto, and to say that in their opinion it is desirable that the objections raised should be considered

from the point of view of the Presidency Banks as well as from the point of view of the Exchange Banks I am accordingly instructed to address you as follows --

Taking, first, proposals (1) and (2), it seems perfectly clear that the main intention was that power should be given to the Presidency Banks to borrow in London under certain conditions and for a certain purpose, and that the power to deal in foreign bills was auxiliary and subsidiary to that intention and purpose, and was to be accompanied by a stated restriction. Only one specific objection has been raised to the proposal to confer power to borrow, and that objection has been brought forward by only one of the Exchange Banks. The objection is that borrowing by the Presidency Banks in London would be apt to have a disturbing effect on the London money market, and might even clash with the issue of Indian Government Loans and Treasury Bills. Now it is almost impossible to imagine that the extent of the borrowing operations of the Presidency Banks under the relative conditions to be imposed, could be of such an extent as to disturb the London money market, and there is no reason to suppose that the Presidency Banks would act in a way to affect the market against themselves. It may be safely said that their operations would never amount to more than a small sum in comparison with the assistance more or less regularly required by, and given to, the Exchange Banks by the London Market, for, as is well known, those Banks operate very largely themselves in that market, and appended to their published balance sheets will be found notes from which some idea may be gathered of the extent to which they rediscount their bills there. And not only do they themselves raise large sums in London, but some of them at least, as is also well known, work very closely and lend freely in the short loan market, leading at times to disturbance of the money market. This was exemplified quite recently. On the 16th of March last the City article of the *Standard* stated, "The scarcity of cash was increased by the interruption of the cable service with Bombay which occasioned some of the Eastern Banks to lend less freely to the market." It seems somewhat anomalous that one of the Exchange Banks which, themselves, make such large use of the London market, should endeavour to prevent the Presidency Banks from borrowing there on the ground that it would lead to disturbance of the market. Their own transactions must, in the nature of things, have a far more disturbing effect than those of the Presidency Banks could have, while the restrictions associated with the proposal, which the objection ignores, are such as to preclude all likelihood of the borrowing contemplated endangering the success of any Government operations.

The objections of the Exchange Banks are directed, with the above exception, against the subordinate but necessary proposal to give the Presidency Banks power to deal in foreign bills so far as is necessary to enable them to remit borrowed money to and from India. Two of the letters indeed, directly allege that the main object is for the Presidency Banks to obtain power to deal in sterling exchange, and the proposals could hardly have been more vigorously contested if the intention had been to confer unlimited and unfettered power to do so. The limitations attached to the proposals are almost entirely ignored, and the compass and aim of the suggestions have thus been misapprehended.

The letters are unanimous in pointing to the improved conditions in the money market as a reason against the proposals, and they are also more or less in agreement that the improvement is likely to be maintained. Holding such opinions, it seems somewhat unreasonable on the part of the Exchange Banks to object to the proposals, seeing these would become operative only when the Bank rate was 6 per cent or over. One letter, no doubt, objects that the Bank rate is fixed by the Presidency Banks themselves, and the inference seems clear that they might raise the rate to the required level at will. Still, the same letter mentions that the periods of monetary stringency, which formerly affected Indian trade during certain months of almost every year, have happily been removed, and asserts an increasing tendency towards a steadier and easier money market. It has nothing to say against the rates as fixed by the Presidency Banks in recent years, but rather quotes them with approval, and it expresses the opinion

that the future will find rates still easier, but apparently it considers there is a danger that the rates will cease to accord with market conditions if the present proposals are sanctioned. This objection takes no notice of the accompanying restriction which would, no doubt, become most stringent if there were signs that the Bank rate was raised to 6 per cent against market conditions merely for the purpose of bringing the initial condition attached into operation.

The reasons assigned for the lower interest rates experienced of recent years are variously attributed to the new Currency Laws, to the policy of the Indian Council in the matter of the sale of Council Bills, and to the operations of the Exchange Banks. Now it seems to the Directors that the only correct explanation is to be found in the fact that the export trade has exceeded so largely the import trade, in value, leading to very large additions to the supplies of money in circulation. The Exchange Banks make no allusion to this, and it seems remarkable that they should ascribe a virtue to the Currency Act, the Indian Council, and themselves, which they do not intrinsically possess. These merely constitute the channels through which the trade balance has been working. It was the highly favourable nature of that balance that alone was the potential cause of the inward flow of money and the easier monetary conditions. With regard to the future the Exchange Banks do not appear to take into account the influence that will be exerted by the course of the external trade, and, in so far as this factor is omitted, their reasons for anticipating a continuance of the easy conditions lately experienced in the money market, and even still easier conditions, seem defective. Should the balance of trade continue on the same favourable lines as during recent years the conditions in the money market will no doubt remain easy. But if that balance is less favourable the money market conditions will probably be less easy.

The Exchange Banks also deprecate competition by the Presidency Banks in exchange business, and unanimously point to the fact that for many years they have financed the export and import trade. They also particularly define the limits and scope of the business of the Presidency Banks. It has already been pointed out that the Exchange Banks have misconceived the nature of the proposals, and there seems to be no doubt that they have also formed an exaggerated opinion as to the extent to which the proposals, if sanctioned, will enable the Presidency Banks to enter into competition with them in exchange transactions. Remembering that the main object is not to obtain permission to operate in exchange but to have power to borrow in London when necessity arises, and that the restrictions to be imposed are a Bank rate in India of 6 per cent or higher, and Government approval of the form of the remittances in each case, it seems impossible to regard the proposals as conferring serious competitive power on the Presidency Banks. The remittance to and from India of the proceeds of loans cannot under any circumstances amount to more than a minute percentage of the total import and export trade. And the prospect presented by one of the Exchange Banks of the Presidency Banks bringing in money from London covering by sterling bills as soon as possible, repeating the operation and again covering, and so on, is opposed to both the spirit and letter of the proposals. There is, however, another side to this objection. While the Exchange Banks carefully allocate to themselves the exclusive privilege of financing the external trade, and to the Presidency Banks that of dealing with the internal trade, and strongly protest against the Presidency Banks being allowed to encroach on their province as defined by themselves, they do not hesitate to compete with the Presidency Banks in the local and internal trade. The Exchange Banks do not mention this aspect of the case, except that one of them remarks that "since the new Currency Laws these Banks have been more disposed to send money to India for local purposes," but the fact is that all the Exchange Banks consulted compete, more or less keenly, in the internal trade, and this competition has been steadily growing and extending. The Directors maintain that in view of that competition the Exchange Banks are not entitled to plead competition with them in exchange business as a reason against the proposals.

Another objection brought forward is that the proposals have been made before and refused, and references are given showing the Government attitude

towards them in the past. On this occasion, however, the Presidency Banks have been able to satisfy Government as to the safety and desirability of giving the power asked for. The opposition of the Exchange Banks, it may be again remarked is directed against the subordinate proposal to provide a means of remitting money borrowed from and to London, whereas Government and the Presidency Banks were chiefly interested in giving and obtaining the power to borrow. This objection may conveniently be connected with another which asks why permission should be accorded now when the only strong argument in favour of the proposals has ceased to exist, that argument being that with the London market thrown open to them for raising money, and with liberty to operate in sterling exchange, the Presidency Banks would be enabled to prevent or alleviate periods of monetary stringency. That is neither the only nor the strongest argument in their favour. The strongest argument is one that has only recently come into force, viz., the establishment of the gold standard, and, it may be added, the existence of a large gold reserve, which ensure safety from serious loss in the event of the Presidency Banks borrowing in London.

Another point deserving notice is the view presented of the Presidency Banks owing their prestige and resources largely to their State connection. So far as the Government deposits with the Banks are concerned, the Exchange Banks have apparently failed to observe that these now form a much smaller proportion of the total resources of the Banks than formerly. I am directed to mention this, as it is desirable that such matters should be accurately stated in a discussion such as the present. Stress is further laid on the fact that the Government deposits carry no interest. But, apart from other considerations, the Exchange Banks cannot be unaware that the restrictions placed on the Banks' business by reason of the State connection constitute a far heavier charge than any ordinary interest charge on the State deposits would amount to. A claim is also made that if exchange banking is no longer to be regarded as a disqualification for Government business, the Exchange Banks should be allowed to compete for a share of the Government business, and the Government balances, on such terms as Government might consider satisfactory. Those terms would no doubt comprise restrictions similar to those imposed on the Presidency Banks including the publication of a weekly statement of affairs and very limited power to operate in exchange, and it need not be considered whether any of the Exchange Banks would find such terms suitable.

It is also objected that no public advantage would be gained and no public interest served by granting the new powers, also that there is less reason now than ever, in fact no valid reason at all can be urged, in favour of the proposals. The Directors and, they believe, the Government of India are satisfied that it would be to the advantage of the Government and the public as well as the Banks themselves to have access to the London market for the purpose of borrowing, and that the proposals are therefore justified.

With regard to proposal 3, while it is admitted to be of no great importance, the objections are raised that it would be liable to gradual enlargement, and so would create in the minds of the Exchange Banks suspicion and friction, that there would be no advantage to the public, and that it would inflict an injury on the Exchange Banks. In reply to these objections I have to point out (1) that there appears to be no grounds for the fear expressed as to a possible extension. No such extension could take place without fresh legislation. (2) The proposal was not brought forward on the ground that it would be advantageous to the general public but, as indicated in the proposal itself, because it would enable the Presidency Banks to afford facilities to customers which are commonly sought for by many private individuals from their bankers. And (3) the injury to the business of the Exchange Banks that would result can only be regarded as infinitesimal. The Exchange Banks appear to be most apprehensive where any competition with them, however trifling, in exchange is concerned, but appear to reserve the right to enter into competition with the Presidency Banks in local banking business whenever it suits them to do so. The Directors submit that no substantial reason has been given for denying to the Presidency Banks the small concession involved in this proposal.

The Directors are of opinion that the Exchange Banks have not made out a strong case against the proposals under reference and they feel themselves called upon to protest respectfully against the abandonment of the proposals which appears to be contemplated in your letter, and to beg that before any decision is come to their reply, as above, to the points raised by the Exchange Banks may receive due consideration along with the representations previously made on this subject by all the Presidency Banks

With reference to the enquiry contained in the last paragraph of your letter, the Directors regard the suggested amendment of the Presidency Banks Act so as to empower them to borrow in London as by far the most important of all the amendments proposed, and they venture accordingly to beg that Government will leave the question in abeyance until it is decided whether the power to borrow is to be included in or excluded from the contemplated legislation

The other contents of your letter do not appear to call for remarks at present.

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Enclosure No 4

No. G. P. L. 124-8, dated Madras, the 20th June 1905

From J. KERR GREIG, Esq., Secretary and Treasurer, Bank of Madras,  
to the SECRETARY TO THE GOVERNMENT OF INDIA, Finance Department, Simla

I have the honour to acknowledge receipt of your letter No. 2035-A, dated 18th April last, on the subject of the "Amendment of the Presidency Banks Act" in which you inform me that in November last representatives of certain of the Exchange Banks were consulted by the India Office with regard to the following proposals —

- (1) That the Presidency Banks should be allowed, when the Bank rate in India is 6 per cent or higher, to borrow in London for the purpose of remitting funds to India,
- (2) That the Banks should be permitted to deal in foreign bills so far as is necessary to enable them to remit the borrowed money to or from India, but that they should be required to make their remittances in such form as may be approved by the Government authorities in each case, and
- (3) That the Banks should be allowed to draw sterling drafts on London for the home remittances of their customers, subject to a limit of 200l in each case

You also enclose a copy of the criticisms passed by the Exchange Banks on these proposals, and you enquire whether my Directors wish to make any further observations on the subject

Your letter further states that it has been ascertained that His Majesty's Secretary of State is prepared to assent to legislation conferring certain powers on the Presidency Banks under certain conditions which have been agreed to by the Banks provided all the concessions were granted, and you ask whether in the event of certain concessions, including that of borrowing in London, being finally rejected, my Directors will still be willing to fulfil their undertaking

My Directors have carefully reconsidered the whole question of the amendment of the Presidency Banks Act in the light of the above-mentioned correspondence, and I am to say that in their opinion the whole matter hinges on the power of access to the London market on the part of the Presidency Banks, in times of stringency, to meet the requirements of the internal trade of this country

The Exchange Banks in their replies agree that the legitimate function of the Presidency Banks is the financing of India's internal trade, while they express themselves as ready and able to finance the large foreign trade of the country, although at the same time they do not apparently propose to confine themselves to this particular branch, seeing that in one instance at least they are already in competition with the Presidency Banks for a share of the internal trade. It is not clear therefore to my Directors where their objection comes in. In any case it is somewhat one-sided

If, as they say, owing to the success which has followed the policy of the Government of India in regard to their currency legislation, such stringency as has been experienced in past years is not likely to recur, the Presidency Banks will not in that case require to utilise the powers for which they ask, but my Directors submit that they should be in a position to do so if necessary, and they consider it absurd to suppose that the comparatively small requirements of the three Presidency Banks would be apt to have a disturbing effect on a money market such as that of London, and might even clash with the issue of Indian Government Loan and Treasury Bills

The suggestions that power to borrow in London is merely the thin end of the wedge and that the Presidency Banks might in time become huge operators in sterling exchange may be dismissed without comment, as it is manifestly within the power of the Government of India to place such restrictions by legislation on the Presidency Banks borrowing as would obviate any attempt of this nature

The Government of India have already taken steps in this direction by limiting their proposals to the extent that the Presidency Banks should only be allowed to borrow when the Bank rate in India is 6 per cent or higher, and that they should be required to make their remittances to or from India *in such form as may be approved by the Government authorities in each case*

As regards the alternative to borrowing which has been put forward, viz, that of increasing the Capital, my Directors would submit that it can scarcely be considered sound Banking policy to incur a permanent liability in order to meet a possible contingency which may or may not arise, or, if it does, only for a short period at the height of the busy season, while accepting sterling fixed deposits in London is open to a similar objection

The Banks are not likely to resort to the expedient of borrowing until it is absolutely necessary for them to do so. The power therefore, to be of any practical use, must be of such a nature that it can be exercised without any delay, that is, by pledging their securities and remitting the proceeds by Council Bills or Telegraphic Transfers, and in this connection my Directors are unable to follow the remark to the effect that such a course would constitute a divorcement between liabilities and assets. It appears to them to be merely a temporary conversion of securities into cash for the purpose of investment in another direction

In conclusion my Directors submit that the Exchange Banks have shown no valid reason why the power of access to London should be withheld from the Presidency Banks

My Directors note with satisfaction that the Secretary of State is prepared to assent to legislation on the lines indicated, and they hope that the Government of India will now see their way to amend the Act in the manner and on the conditions already agreed to by the Presidency Banks

At the same time I am to say that the proposed concessions, apart from that of borrowing in London, although desirable, are not of supreme importance, and my Directors would rather forego these facilities altogether than accept them with the suggested modifications

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No. 34

No 27, Financial, dated London, the 16th March 1906

From the SECRETARY OF STATE FOR INDIA to the GOVERNMENT OF INDIA

I have considered in Council the letter of your Predecessor's Government of the 19th of October 1905, No 351, in which they ask for a reconsideration of my Predecessor's refusal to allow the Presidency Banks to borrow in London, and to deal in foreign bills of exchange for the purpose of remitting money to and from India. I have carefully studied the reasons which have been urged in favour of these proposals and those which led my Predecessor to withhold his sanction, and I am of opinion that the previous decision must be maintained. I now proceed to state the grounds on which this conclusion is based

2 My Predecessor objected to the proposed enlargement of the powers of the Presidency Banks for various reasons, of which the most important



related to its effect on the position of the Exchange Banks. He considered that the alteration of the law as suggested would expose those banks to competition in which they must necessarily be at a disadvantage as compared with the Presidency Banks, because the latter enjoy, through their connection with the Government, important advantages which the Exchange Banks do not share. He drew attention to the possibility that competition of this kind might lessen the usefulness of the Exchange Banks to the State and to Indian commercial interests.

3 The Government of India have considered this matter, and state in their letter under reply that they are satisfied that the proposals involve no unfair or indeed appreciable competition, but I regret that I am unable to agree with this opinion.

4 The desire is that the Presidency Banks may be empowered to deal in foreign bills of exchange subject only to the following restrictions —

- (1) That they shall buy bills on India only from the proceeds of loans contracted in England, and that they shall contract such loans only when the Indian Bank rate exceeds 6 per cent, and shall repay them after an interval of not more than six months.
- (2) That they shall buy bills on England only for the purpose of repaying their English loans.

Under these conditions, the Banks would clearly be within their rights if, having borrowed money in England and bought bills on India, they immediately afterwards bought in India bills on England and used the proceeds to discharge their English loans. This cycle of operations could be constantly repeated so long as the Bank rate remained above 6 per cent, and it is to be presumed that it would be repeated if it were found profitable. Nor is it easy to see on what ground your Government could intervene to prevent the Banks from exercising within the prescribed legal limitations powers that had been deliberately conferred upon them. I am, therefore, of opinion that these proposals would involve competition in exchange business between the Presidency Banks and the Exchange Banks.

5 Any claim on the part of the Exchange Banks to be guarded against competition in this branch of their business must rest, of course, entirely on the grounds stated by my Predecessor and referred to above, viz, that the advantages accruing to the Presidency Banks from their connection with the State are such as to make it impossible to regard their competition with the Exchange Banks as being on a basis of equality. I observe that the Presidency Banks in their letters now forwarded are at some pains to minimise these advantages, but, since they include the use without interest of Government balances seldom falling below three crores of rupees, I think that they must be regarded as substantial enough to justify, as a matter of fairness, and even to require (so long at least as there is not some very strong consideration of public interest to the contrary), the maintenance of the restriction now in question on the business of the Presidency Banks, a restriction which has been in force since these Banks and the Exchange Banks came into existence, and without which it is possible that some of the Exchange Banks might not have been established.

6 I may add that any injury caused to the Exchange Banks by the competition of State-aided rivals would, in my opinion, be detrimental to other interests besides those of the institutions immediately affected. The four Exchange Banks whose representations were forwarded by my Predecessor possess large capital and other resources. I find that they purchased 24½ out of 36½ crores of bills and telegraphic transfers sold by the Secretary of State in Council in 1904-05. It is beyond doubt that, owing to their high standing, it is advantageous to the Secretary of State (and it may reasonably be presumed that it is advantageous to merchants engaged in trade between India and other countries) to be able to carry on remittance transactions through their agency, and to make use of the other facilities which they offer.

7 It remains to be considered what alternative measures, if any, could be adopted for attaining the object which you have in view. The special conditions, for the removal or modification of which the proposals are intended, are described in the eighth paragraph of the letter of your

Predecessor's Government. It is stated that, under the operation of the present Currency System, the former practice of granting loans and advances to the Presidency Banks can no longer be maintained in ordinary circumstances. Your surplus balances must necessarily be held in reserve to meet the demands of importers of gold, and "the consequence is that while rival institutions, by borrowing or transferring capital from London, can command the Government's whole resources," the Presidency Banks are debarred from receiving Government assistance towards meeting exceptional demands. I have not had submitted to me figures showing the diminution that has taken place in the amount of Government money held by the Presidency Banks, but I have no doubt that during the busy season of recent years it has been found difficult to grant them special assistance from your balances. It is not stated whether, in these circumstances, the Presidency Banks adopted the course which in similar circumstances would be regarded as the natural one in this country, namely, to offer additional inducements to depositors in the hope of increasing the amount of private deposits left with them. Assuming that all measures in this direction which present any reasonable prospect of success have been taken, and that the Banks do not contemplate making any addition to their share capital, it appears that the only additional resource to which they can look is an increase in your cash balances which might enable you to lend to them with greater freedom. It is, of course, not to be contemplated that the Government of India should, in the interest of the Presidency Banks, maintain its total balances at a higher level than its own requirements demand, but you might possibly find it advantageous in your own interest to endeavour to keep somewhat higher balances than you have had in some recent years, and any steps that might be taken in this direction would probably benefit the Presidency Banks to some extent. I gather from Lord Amphill's letter No 222, of 23rd June 1904, that the Government of India have for some time had under their consideration the question of the adequacy of their cash balances, and, should you desire to pursue the matter, any proposals that you may make will receive my careful consideration.

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No 35

Telegram from the VICEROY to the SECRETARY OF STATE FOR INDIA,  
dated 15th September 1906

Amendment of the Presidency Banks Act. Please see paragraph 10 of our Financial Despatch No 264, dated 21st July 1901. While amending the Act in accordance with paragraph 9, Clauses (a) to (h) of your Financial Despatch No 15, dated 3rd February 1905, we propose to insert the following clause after Section 36, Clause (m) of existing Act: "The drawing of sterling Bills of Exchange on London for the purpose of the remittances of their customers subject to a limit of 200l in any one month on behalf of any particular customer." We trust that you will accept this minor proposal. We propose to introduce Bill on 29th September.

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No 36

Telegram from the SECRETARY OF STATE FOR INDIA to the VICEROY, Finance Department, dated 26th September 1906

Your telegram dated 15th September. Presidency Banks. I regret that I cannot accept your proposal.

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### APPENDIX I

Extract from Despatch No 158, Financial, dated London, 16th September 1862

From the SECRETARY OF STATE FOR INDIA to the GOVERNMENT OF INDIA

49 I must now advert to a material point in connection with the privileges conceded to the Banks of Bengal and Madras, and, I suppose, of Bombay, viz, the power of dealing in foreign exchanges

50 It appears to Her Majesty's Government to be very objectionable to allow banks so intimately connected with the Government as these banks, and which are entrusted with the custody of the Government balances, to deal in foreign exchanges. The Bank of England does not transact business of that description, which is, in fact, not banking, but speculative commercial business

51 By Clause 5 of Act XXVII of 1855 the Bank of Bengal was authorised, according to the instructions, and at the risk, of their constituents, to remit the principal, interest, or dividends of Government securities by public or private bills, whether payable in India or not, and to do all acts necessary or proper for the purpose of making such remittances. But the power to deal in foreign exchanges was not necessary for that purpose

52 The question of giving a power to deal in foreign exchanges to the Bank of Bengal, which is now proposed, was formerly and on different occasions considered, and that power was always withheld. It is still more objectionable to give it when, as proposed by you, the business of issue is, in a greater or less degree, connected with the business of the bank

53 Any banks to which the balances and treasury business of the Government are to be entrusted must be restricted to legitimate banking operations, such as those transacted by the Bank of England or by the Bank of Bengal as heretofore constituted

54 This precaution is indispensable, for it cannot be conceived that a failure, on the part of the bank entrusted with the business of Government, to cash a Government note or bill or to pay any legal demand on the Government, would be held by the Native community to affect only the credit of the bank. Her Majesty's Government consider that any such occurrence would inevitably be regarded as a failure on the part of the Government itself, and the utmost care must be taken to guard against the possibility of such a contingency

55 I must desire, therefore, that you will not conclude the arrangement which you were about to make with the Bank of Agra, which deals in foreign exchanges, and Her Majesty's Government cannot sanction the concession which you have made to the Bank of Bengal of allowing it to deal in those exchanges. I have not, however, advised Her Majesty to disallow the Act IV of 1862, which gives effect to your intention in this respect, in order to give you an opportunity of making provision for the other objects of the Act

No 127, Financial, dated London, the 4th June 1866

From the SECRETARY OF STATE FOR INDIA to the GOVERNMENT OF INDIA

I have considered in Council your Financial letter dated the 21st February 1866, No 46, forwarding a letter from the Secretary of the Bank of Bengal in which he represents the inconvenience that has attended the withdrawal of the privilege, which was enjoyed by the bank under Section 28 of Act 4 of 1862, of drawing bills of exchange and letters of credit payable out of India for the use of their constituents in the Agency Department, and of buying bills of exchange payable out of India for the purpose of remitting funds to meet such bills or letters of credit, and requests to be allowed to revert to their former privilege, subject to such restrictions as might be prescribed for their guidance

2 The arguments contained in the letter in question have not satisfied me that there is any sufficient ground for departing from the views taken in Sir C Wood's Financial Despatches of the 16th September 1862, No 158, and the 4th January 1864, No 1, and I must, therefore, adhere to the decision therein conveyed

3 It seems to me that notwithstanding the modifications of the arrangement with the bank, made in compliance with the instructions referred to, the accommodation desired by that institution for the benefit of constituents in the Agency Department may be afforded by the issue by the bank of post bills payable in India, which will find always a ready sale in this country, or by permitting constituents to draw upon the amount at their credit in the bank by cheques or bills payable to order

No 289, Financial, dated London, 15th December 1866

From the SECRETARY OF STATE FOR INDIA to the GOVERNMENT OF INDIA.

Para 1 I have considered in Council your Financial Letter, dated the 6th October 1866, No 220, forwarding a renewed application from the Bank of Bengal to be allowed to revert to the privilege which they formerly enjoyed, of maintaining drawing accounts with the Bank of England and Messrs Coutts & Co, in order to enable them to make remittances by their own bills or letters of credit to their constituents in England, in respect of securities deposited with them in the Agency Department

2 Of the inexpediency, as a rule, of allowing a bank which holds the Government balances to deal in foreign exchanges, you appear to be satisfied. But, with the restriction which you propose as to the bills to be purchased by the Bank, you consider that the rigorous application of the rule may be safely relaxed

3 The soundness of the general principle under which the bank has been precluded from dealing in foreign exchanges can hardly be questioned. But, as you have strongly urged that if the bank be allowed to place the necessary funds in the custody of the banks specified, in the manner proposed by you, the convenience of the holders of Indian Government securities resident in Europe will be promoted without any undue risk being incurred by Government, I shall not object to accede to that arrangement, subject to the conditions which you have suggested, and on the distinct understanding that no bills are to be drawn on this country by the Bank of Bengal, except for the remittance of interest and dividends on Government securities or bank shares in their custody, and that, in the event of its appearing hereafter that any risk or inconvenience, not at present foreseen, will be incurred, the concession will be withdrawn

Extract from No 225, Financial, dated London, 6th May 1875

From the SECRETARY OF STATE FOR INDIA to the GOVERNMENT OF INDIA

18 The engagements which the banks on their side should be asked to undertake will be only those to which they would probably by preference submit. If you incorporate them by special legislation, you may properly insert into the Act the restrictions which do not injure their commerce but increase the confidence they enjoy. They should be required to abstain from the hazardous business of foreign exchanges, and from lending on any but the most approved securities. A weekly statement, such as that which is issued by the Bank of England, together with a weekly classification of the securities on which they have advanced, should be supplied by a responsible officer, who should be bound to a true statement under penalty. You will at the same time require such confidential returns as may be necessary to place Your Excellency in full possession of all the requisite information with respect to the distribution of the resources of the banks and the character of their operations. If the information furnished by these returns is sufficiently detailed, it will not be necessary to reserve a power of inspection, which might impose upon you in the public view an undue responsibility for the management of the banks, and would in other respects place the Government in a false position towards them.

19 These restrictions are no more than you may rightly exact as a condition of the position of advantage in which the banks are placed by receiving Acts of Incorporation, and by their connection with your Government

No 41, dated Fort Wilham, the 25th January 1878

From the GOVERNMENT OF INDIA, Financial Department, to the  
SECRETARY OF STATE FOR INDIA

We have the honour to forward for your Lordship's consideration a Memorial\* addressed to us by the three Presidency Banks, in which they pray that the Presidency Banks Act (XI of 1876) may be amended, and that distinct and definite powers may, by the amending enactment, be given to the Presidency Banks—

- 1st To borrow money, either in India or in England, by pledge of assets or otherwise, or on such terms as to repayment, interest, &c, as the said banks may from time to time arrange,
  - 2nd To make remittances by bills of exchange or otherwise, as may seem expedient, to England, in payment of the price of stock or other authorised investments from time to time purchased or acquired for the banks in England, and also in repayment of loans arranged for there,
- and that previous borrowings by such banks or either of them may be declared to have been valid transactions.

\* This Memorial will be found on page 409.

2 We do not think that there is any objection to the Presidency Banks being allowed to borrow in India in the manner described in their memorial, on the contrary it seems right and necessary that they should have this power

3 It rests rather with Her Majesty's Government to decide whether they shall be allowed further to borrow in England. The principal objection which occurs to us is, that if this power is conceded it must lead to some extension of the dealings of the banks in foreign exchanges which Lord Halifax viewed with such disfavour in 1862 (see paragraphs 49-54 of his despatch No 158\*, dated 16th September 1862). At present these banks may only buy and sell bills payable out of India in order to remit, at the risk of their constituents, the proceeds, whether principal, interest or dividend, of any securities or shares which they may buy or which may be in their charge as agents (see *Presidency Banks Act, section 36, clauses (K), (L) and (M)*). Even this liberty was only conceded by your Lordship with some reluctance (See *Earl de Grey and Ripon's despatch No 127†, dated 4th June 1866, and your Lordship's despatch No 289‡, dated 15th December 1866* )

4 But under the present circumstances of the connection between the Government and the Presidency Banks, we do not ourselves object to the concession to them of the full powers which they desire. If your Lordship should concur in this view and authorise us to undertake the necessary legislation, we should take care to require such returns as would show that the banks bought and sold bills payable out of India only for the purposes of the transactions so authorised and for which such purchases and sale are already permitted

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No 135, Financial, dated London, 2nd May 1878

From the SECRETARY OF STATE FOR INDIA to the GOVERNMENT OF INDIA

Para 1 I have considered in Council your Financial Letter, dated the 25th January last, No 41, forwarding for my consideration, a memorial addressed to your Government by the three Presidency Banks, praying that the Presidency Banks Act XI of 1876 may be amended so that they may be empowered,—

“1st To borrow money, either in India or England, by pledge of assets or otherwise, or on such terms as to repayments, interest, &c, as the said banks may from time to time arrange,

“2nd To make remittances by bills of exchange or otherwise, as may seem expedient, to England, in payment of the price of stock or other authorised investments from time to time purchased or acquired for the banks in England, and also in repayment of loans arranged for there,

“and that previous borrowings by such banks, or either of them, may be declared to have been valid transactions”

2 In forwarding these memorials, you state that you “do not think that there is any objection to the Presidency Banks being allowed to borrow in India in the manner described in their memorial, on the contrary, it seems right and necessary that they should have this power,” and that “it rests rather with Her Majesty's Government to decide whether they shall be allowed further to borrow in England”

3 The principal objection which occurs to you is, that if this power be conceded it must lead to some extension of the dealings of the banks in foreign exchanges, which Lord Halifax viewed with such disfavour in 1862, § as, at present, the “banks may only buy and sell bills payable out of India, in order to remit, at the risk of their constituents, the proceeds, whether principal, interest, or dividend, of any securities or shares which they may buy, or which may be in their hands as agents”

4 You also state, that “under the present circumstances of the connection between the Government and the Presidency Banks,” you do not “object to the concession to them of the full powers which they desire, and if your Lordship should concur in this view, and authorise us to undertake the necessary legislation, we should take care to require such returns as would show that the banks bought and sold bills payable out of India only for the purposes of the transactions so authorised, and for which such purchases and sale are already permitted”

5 Although you refer to the opinion of the Home Government in regard to the question of dealing in foreign exchanges contained in the despatches ¶ quoted by you,

\* See page 514

† See page 514

‡ See page 515

§ Paras 49, 54, of India Financial Despatch, dated 16th September 1862, No. 158 (p 514).

¶ India Financial Despatches, No 158 of 1862 and Nos. 127 and 289 of 1866 (pp 514-5)

you do not allude to and may possibly have overlooked, the Financial Despatch, dated the 6th May 1875, No 225, regarding the proposed modifications of the agreements with the Presidency Banks for the conduct of the Government business

6 In para 18 of that Despatch, the first, among other conditions, on which it was stated that the Secretary of State was willing that fresh agreements should be entered into with the banks was, that "they should be required to abstain from the hazardous business of foreign exchanges"

7 I could not sanction the continuance of large Government balances in the custody of any banks which had the power of dealing in foreign exchanges, which is in reality speculative commercial business, not legitimate banking, but, apart from that consideration, I am decidedly of opinion that the concession of a power of creating a foreign agency in England, such as would be the result of entering into loan transactions of the nature of those now contemplated, would admit of the banks locking up a large portion of their capital at so great a distance as to render it practically unavailable in the case of any emergency arising in India

8 I must therefore decline to comply with the memorial of the banks, so far as it relates to borrowing in England

9 As regards borrowing in India, in the manner suggested in the memorial, I request that you will obtain the opinion of your law officers as to the necessity for amending the Banks Act, as, although I am not unwilling to concede that power to the banks, I do not think it desirable to modify the existing Act or agreements with them, without some strong and clearly defined reason

10 A copy of a report by the legal adviser to this Office, dated 7th March 1878, is forwarded herewith for the information of your Government.

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Enclosure

REPORT by the LEGAL ADVISER, India Office, dated 7th March 1878

The printed memorial of the Presidency Banks correctly states that it is an ordinary incident of banking business to obtain funds for temporary purposes by pledging assets, and it is indisputable that the Directors possess power to borrow unless such power is excluded by the legal instruments from which their authority is derived. See *Bank of Australasia v Breillat*, 6 Moore P C 152, and Mr Justice Lindley's "Treatise on Partnership," 3rd edition, page 283

It appears to me that power to borrow in India, the country where the business is carried on, is not excluded by any part of the Presidency Banks Act, if indeed such power is not conferred on the banks by Section 36 of the Act, which enables them generally to do all such matters and things as may be incidental or subsidiary to the transacting of the various kinds of business there specified, and therefore the Presidency Banks are not now precluded by law from borrowing in India in the manner described in their memorial. I should express this opinion with more confidence, but for the fact that Mr Paul, the Advocate-General, and another gentleman of eminence at the Calcutta Bar have advised that if the bank contemplates raising money on a large scale, and habitually, by pledge of Government paper as an intermediate stage in its total conversion into money, it would be desirable to have an express authorising clause inserted in the Act

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## APPENDIX XVI

## NOTE OF EVIDENCE submitted by SIR DANIEL M HAMILTON

1 Increased trade can best be secured by increased production, therefore, questions connected with currency and finance should be settled with a view to encouraging the Producer to produce more

2 According to the Royal Warrant, one of the main objects in view in appointing the Commission on Indian Finance and Currency is, to inquire whether the existing practice with regard to the Gold Standard and Paper Currency Reserves is conducive to the interests of India. The term "interests of India" I take to mean the interests of the people of India, and as four-fifths of these are agriculturists, I understand that the various questions at issue have to be decided with a view to the well-being of the great majority of the people, rather than in the interest of the small minority, and it is on this understanding I have penned the following remarks, believing that the interests of Trade will best be served by studying the interests of the great industry upon which the welfare of India rests

*The Sale of Council Bills and Transfers*

3 Trade would not purchase these if it did not find them a convenience. Government ought, therefore, to sell as many as Trade will take

*The Large Cash Balances held in London*

4 The writer of the attack in the "Times" says —

"These large balances mean that many millions of London money have been improperly withdrawn from India. They represent sums extracted from the taxpayer in excess of the requirements of the State, capital withdrawn from India for use in London, and there used, not in pursuit of Indian interests, but for the convenience of joint-stock banks trading on inadequate gold reserves"

5 The words quoted convey the impression that Government has bodily lifted the cash which it had lying in India, and dumped it down in London for the sole purpose of financing London bankers, but this is far from being the whole truth. What has really happened is this. Government has made over to the people of India, from the money it had lying there, a portion of what is due to them in settlement of the balance of trade, and has recovered the gold equivalent from the importers in England. For every sovereign so collected in London 15 rupees have been laid out in India, so that it is not correct to suggest that India has altogether lost the use of this money. It is rather when Government does *not* collect the gold in London, but leaves it to find its own way back to India, that India runs the risk of losing, as I shall show further on. Whether the gold collected in London against the currency so paid out in India is invested to the best advantage I shall discuss later.

*The Treasury Balances*

6 The Treasury balances remaining in India should be freely lent out in India to first-class banks, thus keeping the bank rate steady. As regards the statement that the Treasury balances represent money which has been extracted from the taxpayers in excess of the requirements of the State, this may be so in a technical sense, but when it is remembered that all money taken from the people is returned to the people in other ways, it will be seen that there is really nothing in the charge. Personally I should like to see more taken from the people in the same way, for, if the Government does

not take it, the people's creditors will. When Government takes it, the money is spent for the benefit of the people. When Government does not take it, the people lose it. The people of India are not yet able to look after themselves. They and their finances require shepherding, and their only shepherd is the Government.

*The Gold Standard and Paper Currency Reserves*

7 The Treasury balances may be looked upon as the accumulated profit on Revenue Account. Besides the Treasury balances there are the balances belonging to the Gold Standard and Paper Currency Reserves, which now amount to something like 60 millions sterling held partly in India and partly in London. As regards the location of these balances, the Gold Standard Reserve, if ever it is wanted at all, will be wanted in London to ensure the payment in England, at 1s 4d per rupee, of remittances from India. It ought therefore to be held in London and not in India, where it can never be wanted. I see no objection to investing the greater portion of the Gold Standard Reserve in easily realisable gold securities, not putting too much into one basket. The loss to India by not investing, at a time like the present when she is losing her opium revenue, and requires so much more than formerly for education, sanitation, Army expenditure, &c, would be serious. The interest on the investment of the Gold Standard Reserve might meantime be allowed to accumulate in gold coin.

8 With regard to the Currency Reserves, as much silver coin as is likely to be required to encash currency notes presented to Government for payment, should be kept in India, with a safe margin for emergencies, using it to supplement the Treasury balances as required by trade, the interest on the money so lent to the Treasury being credited to the Paper Currency Reserve. The remainder should, as far as possible, be paid out to the people in silver and paper currency in settlement of the balance of trade due to them, the gold equivalent being recovered in London by means of Council drafts and transfers, and the greater portion of same invested. As regards its investment, I would remark as follows —

9 It is quite legitimate business for Government to lend out India's gold balances to first-class London banks or first-class financial firms on first-class security, or to invest them in first-class securities provided no more is placed in one basket than can easily be realised without loss when wanted, but it would, in my opinion, be better still if the gold balances were utilised in providing a regular orderly programme of capital expenditure in Indian railway construction, the provision of rolling stock for which there is such a constant outcry, irrigation works, &c

10 The existing financial system upon which depends the development of India is that known as the "Gamble in rain," so christened by Sir Guy Fleetwood Wilson, late Finance Minister for India. There is no method in it. If the rainfall is short, development stops or is curtailed, whereas it ought to proceed all the faster, so that the people might be better able to stand against the short rainfalls which are sure to recur. Some years ago Government, with a strong hand, suppressed rain gambling in Calcutta. Why is the evil allowed to live on in Simla and Whitehall? Government fails to discriminate between productive and non-productive debt. It looks upon all debt as an evil, whereas productive debt is a blessing and not a curse. This indiscriminate worship of the "Gamble in rain," otherwise the "Avoidance and reduction of debt," is the worship of evil. It is unsound finance not to borrow when, by means of the borrowing, India would gain more than its cost. To save the interest, Government loses the principal of the people. 100l of development lost for the sake of 4l of interest. Here is something better than ninepence for fourpence, but Government has not the vision to see it. The Provincial Governments, however, see it, and in proof of this I would refer the Commission to the speech of Sir William Duke, member of the Executive Council of the Government of Bengal, in the course of the provincial budget debate on 5th March last. In returning thanks to the Government of India for the unusually large amount which



had been allotted to Bengal from last year's "gamble," Sir William remarked —

"I think this Council will be little disposed to look a gift horse in the mouth, and that it will share with me the hope that as the disposal of this great accession to our resources will be spread over a considerable period, we shall escape those of the evils unusually attendant on a policy of doles which arise from ill-considered schemes and hasty, and therefore extravagant expenditure. At the same time, I may be permitted the pious hope that as the Government of India become more assured as to the certainty of expansion in their revenue, as they recognise, for instance, that the steady annual expenditure of 10 or 12 or more millions on railways, whatever the ups and downs from year to year, must in the end produce a corresponding average increase in receipts. As they acquire more certainty of this they may be willing to assign us an increasing share of expanding revenue, for it is only so that we can develop a regular and progressive policy of provincial finances, that the Local Government can feel that it really possesses and can exercise the responsibility for internal development which should rest upon it, and that this Council can exercise the influence on provincial finance which is contemplated by its constitution, and which the Government desires to accord to it."

Gambling and beggary go hand in hand, and no stronger condemnation of the financial system known as the "gamble in rain" can be found than in these remarks of Sir William Duke

11 I would therefore suggest, for the consideration of the Commission, that instead of lending out India's gold to London banks and financial houses which use it largely for the development of foreign countries, it be utilised directly for the development of India, for, to whatever extent foreign countries are developed by India's gold, to that extent is India's power of development curtailed. If, for example, it is desirable that a railway and irrigation programme involving a capital expenditure of 50 millions sterling spread over five years be gone on with, 10 millions sterling should be found and spent every year till the programme is completed. In a good year the Government balances would be large, and therefore the borrowing would be small, in a bad year the borrowings would be larger and the balances smaller, but whether the year were good or bad 10 millions of balances or borrowings would be spent, and the arrested development from which the country now suffers under the spasmodic "Rain gamble" finance would disappear. The gold balances would be the regulator which would regulate the amount to be borrowed, and would ensure the regular development of the country. Whatever money might be wanted for famine relief in a bad year should be found by temporary borrowing and not come off the development programme, or the million sterling which is taken out of the revenue every year for famine relief might be kept for that purpose and lent out in London or Calcutta at short call instead of being juggled away as it is, in the reduction and avoidance of debt. The Gold Standard Reserve need not be encroached upon, though I personally see no objection to it also being used in the same way as the Currency Reserve.

12 In this way India's balance of trade would construct her railways and irrigation works. It would be a living thing, and instead of developing foreign countries or lying dead and buried in Government vaults in India, where it is not wanted, or in the hoards of the people, it would be spent in developing India. Government ought, therefore, to do all in its power to secure as large a share as possible of the gold balance of trade, by getting possession of every sovereign it can before it leaves England, or by inducing the gold which does go out to India, to flow into the Government treasuries, to be used in the way suggested.

13 That a live railway or irrigation canal would form a stronger currency reserve than dead coinage is proved by the fact that it grows in value whereas the dead coinage does not. Ten millions sunk in railways and irrigation works yielding 5 per cent would grow into

twenty millions in fourteen years. The currency would therefore be doubly secured by being invested, and if gold should by any possibility be wanted at any time the security of the railway or canal would provide whatever is wanted. Besides the interest yielded, the crops resulting from the irrigation would probably be worth a further fifty millions sterling for the railways to carry, the advantage of investing, therefore, rather than keeping the reserves lying idle, is apparent.

14 The Government Blue Book shows that whereas 50 per cent of the Currency Reserve was invested fifty years ago, the invested portion has dwindled down to 22 per cent at the present time. The difference of, say, 30 per cent is equivalent to a capital sum of thirteen millions sterling which is lying idle as compared with the former practice, and when gold cannot be claimed by the people of India in exchange for either currency notes or silver I do not see why even a larger share than before should not be invested. The loss on the 30 per cent alone amounts to 600,000*l* yearly, in addition to the loss of development, which is still more serious.

15 I should also like to enquire if the gold portion of the currency reserves stand in the Government books at fifteen rupees per sovereign? If so, the valuation is not correct, for if there are at the present moment 26 million sovereigns or gold securities in the currency reserve these can be converted into 57 crores of rupees as against the 40 crores shown by the Government figures. There is therefore an additional currency reserve here available of 17 crores of rupees.

16 It might be well, for the sake of clear accounting, if some form of Government bond were created which would be handed to the Treasury Balance department or Paper Currency and Gold Standard departments in exchange for any money lent by these departments to the Railway or Irrigation departments. Should gold be wanted for gold standard or other purposes these bonds would be given to the public in exchange for gold, and recalled when the gold was no longer wanted.

#### *The Financing of Trade.*

17 With regard to the criticism that it is not the business of Government to finance trade as it does by selling Council bills and transfers, I would again point out that in so doing Government secures possession of the gold balance of trade and holds it for the people (for the Government and the people are one), and the equivalent in rupee currency being paid out in India goes to fertilise the country. When Government stands aside and allows the gold to flow past it, to bury itself in the desert, its fertilising power is lost, and with it is lost the many millions sterling worth of produce which India has thus given away without receiving produce in exchange, for whatever portion of the gold received in exchange is hoarded is lost to India and to the world. The loss is therefore a double one—India is depleted of many millions sterling worth of produce, plus the fertilising power of many millions sterling of currency. Even if the fifteen million sovereigns which India imported last year were to remain in circulation, she never recovers the fifteen millions worth of produce exported in exchange. Is it surprising that almost every district of India has its turn of being converted into a work-house? If the producers, who form the vast majority of the people in India, received the gold in exchange for their produce, and chose to bury it, it might be said they had a right to do what they pleased with their own, but owing to the want of a banking system for the people, to which I shall refer later, the producer does not get his own—another man gets it with the result I have mentioned.

18 The loss which India would suffer if Government declined to finance trade by refusing to sell Council bills and transfers can be shown in another way. Take, for example, last year's trade. In his last budget speech Sir Guy Fleetwood Wilson gave the nine months' balance—April to December—as 61½ crores of rupees, or about 40 millions sterling, equal to 53 millions, or, say, 50 millions for twelve months. If Government, by the

sale of Council bills and transfers, secures this, the people receive payment in the currency of the country to the same extent	-	-	£50,000,000
In addition to this, Government have the gold in hand for investment in railways and rolling stock, irrigation works, &c	-	-	£50,000,000
Less what Government has to pay out for the home charges	-	-	18,000,000
			<u>32,000,000</u>

Also deduct the amount required for the purchase of silver for coinage (average for the last ten years, 6,117,516l) say	-	-	8,000,000
			<u>24,000,000</u>

Total Capital gain to India by the sale of Council drafts and transfers	-	-	-	-	-	£74,000,000
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Whereas if Government did not finance trade by the sale of Council drafts and transfers, but allowed the gold to flow back to India to circulate as gold currency, the currency would be increased by	-	-	-	-	-	£50,000,000
Leaving a net Capital loss to India if trade were not financed by the sale of Council bills and transfers of (which loss is really a loss of produce)	-	-	-	-	-	<u>£24,000,000</u>

in addition to the loss of development which is still more serious

An additional loss of produce which India would suffer if Government did not finance trade but allowed the gold to flow to India may be illustrated in this way —For the year 1911-12, after paying the home charges and the cost of silver, &c, the balance of India's exports over her imports fetched 34l millions sterling in the European markets	-	-	-	-	-	£34,000,000
In payment of this the people who raised the produce received 51 crores of rupees, having a silver intrinsic value of	-	-	-	-	-	<u>23,000,000</u>

Leaving a loss of produce to the people of (which loss is also a loss of Capital)	-	-	-	-	-	<u>£11,000,000</u>
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Whereas if the people leave Government to collect the money for them in Europe by selling Council drafts and transfers, Government converts every sovereign into twenty-two rupees. Thus, while the people with their fifteen rupees can purchase only that amount of produce, Government can purchase for them twenty-two rupees worth of produce, the seven rupees difference on each sovereign representing a gain to the people of eleven millions sterling on the 23l millions of silver purchased to make the 51 crores of rupees

	-	-	-	-	-	£11,000,000
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19 It is therefore not only a convenience to trade but a gain to India when Government sells Council bills and transfers over and above the amount required for the home charges. The more it sells the greater is India's gain. Every sovereign which goes into circulation instead of into the Government Treasuries is a loss of seven rupees worth of possible railways and irrigation canals or any other reproductive investment, plus a loss of fifteen rupees worth of produce.

#### India's Loss of Produce

20 The loss may be briefly stated in this way. Besides paying for the home charges, India last year exported over 30l millions sterling worth of produce. In exchange for this she received 30l millions of gold. This gold represents a title to draw from Europe thirty millions sterling worth of produce, but while the gold is hoarded either in the Government vaults or in the homes of the people, or if it is circulating in India as currency, the titles have never been presented in Europe for payment, and therefore India has parted with her produce for nothing. To whatever extent gold is in the

hands of Government, produce can be claimed from Europe to the same extent. The gold absorbed by the people, whether it is in circulation or in hoards, remains uncashed. I understand that during the last ten or twelve years India has absorbed 108½ millions of sovereigns and bullion, therefore she has not yet received from Europe the 108½ millions worth of produce to which she is entitled. During last year the loss amounted to 18½ millions sterling.

*The Fowler Committee and the proposed Gold Currency*

21 The Committee recommended the introduction, sooner or later, of a gold currency, in the belief that the hoarding of gold in preference to silver would not materially increase. I quote their words —

“As regards the hoarding difficulty in India we are not satisfied that the danger therefrom is so great as has been suggested. While we must look to the continuance of the habit of hoarding, we may also feel satisfied that until gold has penetrated into general circulation, so far as the relatively small transactions of India permit, there will be no more materially increased temptation to the natives of India to hoard gold instead of silver. Moreover, the introduction of a gold currency into India would not be an untried experiment. As has been shown above, gold coins were in common circulation in India generally within living memory, and expressly stated in 1806 to form the principal currency and money of account of Madras” (para 50 of Report, C 9390)

22 Events having falsified the view that the hoarding of gold would not be materially increased, the recommendation based thereon falls to the ground. The Fowler Committee would also seem to have overlooked the important fact that when gold and silver were in common circulation they had a fixed value in relation to each other, and were both saleable at their nominal value in the markets of the world, but the case is now entirely different, and we see before our eyes Gresham's law in active operation driving the gold out of sight.

23 As for there being no materially-increased temptation to the people of India to hoard gold rather than silver, what greater temptation could a man have than to be offered twenty shillingworth of gold for thirteen shillingworth of silver?

24 The Fowler Committee were opposed to Government being compelled to pay out gold in exchange for rupees, and their recommendation in this respect should be rigidly adhered to. It would be the height of folly for Government to give twenty shillingworth of gold for thirteen shillingworth of silver, or for a currency note of no intrinsic value whatever. Having obtained possession of the gold, Government should hold on to it for the benefit of the people at large, and not run the risk, when gold is becoming more valuable day by day, of its getting into the hands of the few who may bury it.

25 But apart from these considerations it would, in my opinion, be unwise to rest the trade of India on a gold currency, for in the event of a world panic arising, with its consequent scramble for gold, the people would give much more than fifteen rupees for a sovereign, and then where would exchange be, and where would Government look for the five millions sterling extra taxation required for its home remittances? With the trade of the country resting on a legal tender currency of silver and paper, and a big powerful gold reserve in London to ensure stability of exchange, the trade of India would pursue the even tenor of its way, while countries with a gold currency collapsed, as America did five years ago.

*The Fowler Committee and a State Bank for India*

26. In paragraph 22 of their report the Fowler Committee expressed doubt as to whether the banking facilities of India were keeping pace with its requirements, and in an appendix to the report Mr. Hambro, a member of the Committee, with a view to improving the banking facilities of the

country, made a definite proposal that a strong bank should be established somewhat on the lines of the Bank of England or the Bank of France, the management of the currency, &c, being entrusted to the proposed bank. The proposal has lately been revived in the "Times". That there is great room for a great banking business, whatever form it may take, anyone familiar with the district life of India is only too painfully aware.

27 The great want, or what I may call the fatal defect, in Indian banking is that it makes absolutely no provision for the financing of the great industry of the country—agriculture. Two hundred and fifty millions of the people of India are directly dependent upon agriculture, and yet this gigantic industry has hitherto been left to the tender mercy of the small money-lending capitalist. There are Presidency and Exchange Banks and other financial conveniences for the trader, but the most important man in the country, the man upon whom all India depends, the man without whom neither the trader nor the banker nor Government could exist, is left outside the reach of cheap money. The producer, when he wants to borrow, as he always does, has no security but his labour and his ungrown crops to offer, and as he is already practically insolvent, and may die before his crops are reaped, he has to pay for his finance whatever price the man with the money chooses to ask. Trade cannot increase unless produce increases, and produce will increase in exact ratio to the inducement offered to the producer. If the producer has to pay anything from 25 to 100 per cent for his finance the inducement to produce is wanting, for it means that all he makes over and above his bare living goes to his creditors. The secret of successful industry is to buy your finance cheap and sell your produce dear. The Indian buys his finance dear and sells his produce cheap. His creditor generally fixes the price of both. The ryot feeds the financier in the fat years and the Government feeds the ryot in the lean. Trade flourishes on the labour of a bankrupt people, for three-fourths of the people of India are unable to pay their debts. The country is run by a system of forced labour, the force being that of the money-lender. Ought Government to look on in the good years and watch a large portion of the surplus gold being buried by the small minority, or ought it to intercept all the gold it can for the benefit of the people?

28 We see in British India to-day 250 millions of people living off 250 million acres of land. All the wealth the people can ever hope to have is what each can get out of his little one-acre patch, and the patch grows smaller as the years go on, for the population increases, but the land does not. If the people of India have only this to look forward to, is it not absolutely essential that they, and not their creditors, should reap the harvest which they sow, but they never will reap it while the present financial conditions last. Government is now making great efforts, and rightly, to improve the agriculture of the country, but unless the people themselves are to get the increase resulting from their labour the efforts of Government will be very largely in vain. Improved agriculture and improved finance must go together. It is the organisation of its capital that India wants more than its increase. There is plenty of capital in the country, but it is mainly in the wrong hands—the hands of the non-producers. The greatest economic problem before India to-day is how to shift the control of capital from the hands of the non-producers to those of the producers of the country's wealth, and until that problem is solved we shall look in vain for much progress.

29 This is the great problem to which a State Bank should address itself. That the industry of 250 millions of people has to pay anything from 25 to 100 per cent for its finance is sufficient evidence that there is vast room for a great banking business. Whether the business should be done by a State Bank formed by a combination of the Presidency Banks, with branches all over the country, or by the Presidency Banks being given enlarged powers, and acting independently, is immaterial, but in one way or another a bridge must be built by which the producer can reach the cheap money market. The State Bank or the Presidency Bank could not be in touch with the individual cultivator, but by means of the Co-operative

Credit movement, for which there is so great a demand, that direct touch would be attained through the Village Co-operative Credit Unions which are now being developed, the Unions paying into or drawing out money as required from the enlarged Presidency Bank. As a matter of fact the Village Co-operative Societies after a time find locally most of the money they require. Perhaps the district treasuries could be made the connecting links with the district Co-operative Unions.

30 Having thus got into direct touch with the money market, the Indian producer would lead the world, for his wants being so few his balance would be large, and, working as he would do for himself and not for his creditors, India would advance by leaps and bounds, the people would have plenty to tide them over the bad years, the famine problem and the many other problems, such as education, police, sanitation, which turn on finance, would be solved. I see the "Times" calling for an increased Army expenditure in India, this too, as well as the lost opium revenue, must come from the ryot, for it is upon the ryot, perhaps more than on the sword, that India rests. The ryot pays the land revenue, which pays the Army, the ryot's produce runs the railways and fills the steamers, the ryot grows the cotton and the jute for the mills, and the food for the men who work therein. The ryot buys the Manchester piece goods, and the better off he is the more he will buy. It is the ryot who does all these things, but until Lord Curzon passed his Co-operative Credit Societies Act there was no man who cared for his financial soul. The movement is, however, starving for want of men to develop it. Only one civilian can be spared from each province to develop Co-operative Credit. In Bengal that one man, with an Indian assistant or two, has to preach to 50 or 60 millions of people in 137,000 villages. Not one thousand villages have yet been entered. Government is calling out all over India for honorary workers to push Co-operative Credit, but the response is small. The very success of the movement threatens to stop its development, for the time of the men set apart for the work is now so taken up in the supervision of the existing societies that they have little or no time for further propaganda. What I would therefore suggest is, that when the gold standard has been rendered quite secure, if it is not so already, the profit on the coinage of silver, or on the increased investment of the currency reserve, be partly devoted towards the payment of whatever staff, European or Indian, may be necessary for the development of the Co-operative Credit movement. The movement has already proved itself to be the most powerful uplifting movement of the time in India, not only financially but socially, and needs no further proving, as the Government blue books show. All it wants is men to develop it, and the money to provide these should be found even if other things have to starve. Money spent in directly increasing the production of the country will repay itself a thousandfold.

31 It has been suggested that the turning loose of a large amount of currency in India without an outlet may cause redundancy and lead to a rise in prices which will tell hardly on the poor with fixed incomes. It is certainly no advantage to a country to increase its currency unless the increase in currency leads to an increase of produce. The development of a sound banking system for the people, combined with railway and irrigation development, will, by increasing production, obviate any danger on this score, and for this reason, among others, I would strongly advocate the development of the Co-operative Credit movement. When 100 villagers club together and stand security for each other, their individual security is increased a hundredfold. Their credit is increased to the same extent. Credit and faith are one. From time immemorial the Indian producer has been calling for credit, so that the money markets would have sufficient faith in him to lend him cheap money. The way has been found in the Co-operative Credit movement, linked up with the Presidency Banks. "Strong banks," says the well-known Indian financial writer, "Rex," "are centres of credit. They uphold it, as it were, on a cantilever system. If well conducted they become the measure of credit which, when properly regulated, has more influence as a factor of wealth and prosperity

' than all the mines of all the world " In proportion as the credit of the ryot increases his production will increase, and more currency will be wanted to move it. The increase in production, resulting from improved banking and increased railways and irrigation, will thus keep pace with and absorb the increased currency, and tend to keep prices at a level which will not tell hardly on the poor with fixed incomes. India wants an extension of credit, but we must be careful to see that the right men, the 250 million producers, get it, otherwise they may be even worse off than they are now.

32. Within the last few years a number of new banks have come into existence, but they have not the resources at their command to finance the agriculture of India, even if they were to cater for that business. It is not lacs of rupees that a business of this magnitude requires, but hundreds of millions sterling, for, large though the external trade is, the internal is greater still. The financing of 250 millions of Indian agriculturalists who are now out of the reach of cheap money is a big problem, and wants something big in the way of banking.

33. We must be very careful not to encourage the growth of a mushroom banking business for the people, and this for political as well as economic reasons, for it is the Government which is blamed when anything goes wrong. The Bank of Burma sounds a warning. Even a Government auditor could not possibly go into the details of a banking business sufficiently to guarantee that everything was in order, whereas the linking up of the Presidency Banks (either separately or together as a State Bank) with the great industry of the country by means of the Co-operative Credit movement, would give a powerful stimulus to sound banking, and inspire in the people that confidence without which a reliable banking business cannot be developed. If the powers and capital of the Presidency Banks were enlarged (or a State Bank formed), the Exchange Banks might take a capital interest in them, with a seat on the Board of Directors, for the linking up of the great agricultural industry directly with the money market, and the consequent exclusion of the usurer with his sterilising rate of interest, would have an enormous effect in stimulating production and increasing the export and import trades by which the Exchange Banks live.

#### *The Financial Organisation of the India Office*

34. Although there is absolutely no reason for thinking that the Finance Committee of the India Office have ever deliberately made the interests of India subservient to the interests of the London banks and financial houses, I think it would be better, in the fierce light which beats upon the throne, if London bankers did not have the ruling voice in the management of India's finances and cash balances. The Finance Committee might be composed as follows.—An Indian civilian or non-civilian who has held the post of Finance Minister or Financial Secretary to the Government of India, a Presidency Bank manager, an Exchange banker, a London banker, a European mercantile man with Indian experience, an Indian mercantile man, or an Indian member of the Indian Civil Service.

#### *Summary of Sir Daniel M. Hamilton's Evidence*

1. That as trade would not purchase Council bills and transfers if it did not find them a convenience, Government ought to sell as many as trade will take.

2. That in the interests of India, apart from trade, Government should secure as large a share as possible of the gold balance of trade, by the sale of Council bills and transfers, and by inducing the gold which does go to India, to flow into the Government coffers there.

3. That to use, for currency purposes only, the gold balance of trade, would be to destroy half its value.

4. That the gold secured by Government be made to serve the double purpose of currency and capital expenditure—paper currency or silver being

given to the people in payment of their produce, and Government interest bearing bonds being given to the reserve treasuries in exchange for the gold drawn from these treasuries for capital expenditure

5 That to whatever extent gold is hoarded, or is in circulation, India loses the equivalent in produce

6 That this loss now amounts to many millions sterling yearly.

7. That to save India from this loss of produce it is necessary that Government secure the gold which pays for the produce.

8 That the gold secured by Government be utilised, as far as possible, for the development of India, rather than lent to London banks and financial houses for the development of foreign countries, or even of England

9 That the regular and orderly development of India requires a regular and orderly system of constructive finance, and not a spasmodic system such as that known as "the gamble in rain"

10 That a regular system of constructive finance, and an orderly development programme can be provided by means of the Government reserves and balances, combined with borrowing

11 That in the event of a world panic arising, with its consequent scramble for gold, a silver and paper currency, backed by a powerful gold standard reserve, will save the trade of India as well as the finances of Government

12 That to give twenty shillings worth of gold for thirteen shillings worth of silver, or for a piece of paper, is not sound finance

13 That to lose fivepence of silver *plus 1l* worth of produce in order to save one-eighth of a penny is not sound finance

14 That raising the rate of exchange above *1s 4d* curtails exports, and weakens the gold standard reserve

15 That Government should reserve the right to refuse to give gold in exchange for silver or paper currency

16 That the gold standard reserve be held in the place where it is most likely to be wanted, viz, London, and the greater portion invested, the interest, meantime, being allowed to accumulate in gold coin

17 That India is losing heavily by having a much smaller percentage of her currency reserves invested than was formerly the case

18 That the currency reserves be held partly in London and partly in India, and invested in the development of India as suggested (the capital expenditure department paying to the currency reserve interest on the money invested) keeping in hand a sufficiency of silver currency for the encashment of currency notes presented to Government for payment. The Treasury department should be able to say from past experience how much is likely to be required for this purpose

19 That the silver so kept for the encashment of currency notes, when not required for that purpose, be lent out at interest to the Treasury balance department when required by trade

20 That the Treasury balances be lent out freely at interest to first-class banks, when required to finance trade.

21 That the great defect in Indian banking is that it makes no provision for the financing of the great industry of the country, agriculture, by which 250 millions of the people directly live

22 That as trade can increase only as produce increases, the first thing to be done is to encourage the 250 millions of producers to raise more produce

23 That so long as the usurer takes all the profit, it is not worth the producers' while raising more produce



24 That to make it worth the producers' while to increase production, he must be relieved from the usurer and brought within reach of the cheap money market

25 That this can best be done by linking up the producer with the Presidency Banks (either jointly or separately) by means of the Co-operative Credit system of finance

26 That more men ought to be provided for the development of Co-operative Credit, their salaries being provided from the profit on the currency after the gold standard has been made secure, or from the profit resulting from the proposed increased investment of the currency reserve, or from whatever other source may be thought best

27 That with the great increase in the export and import trades, which would result from the financing of the producer, the Exchange Banks would greatly benefit. They might, therefore, take a capital interest in the enlarged Presidency Banks, with a seat on the board of directors, Government also being represented on the board

28 That the Finance Committee of the India Council be so arranged that London banks shall not have the deciding voice in financial questions. The Committee might consist of—One who has held the appointment of Financial Member of the Government of India, or been Secretary to the Government of India in the Finance Department, a Presidency Bank Manager, an Exchange Bank Manager, a European mercantile man with Indian experience, an Indian mercantile man, an Indian member of the Indian Civil Service

29 The only way to save India's gold balance is for the Government to secure and use it. The larger the balance is, the better for India. The only sound method of increasing the balance is to encourage the producer to increase production, and the only proved method of accomplishing this is the Co-operative Credit method. I trust, therefore, that from the enormous sums which I believe to be available both now and in the future, the little required to provide the additional men wanted to develop the Co-operative Credit movement will not be refused

#### SUPPLEMENTARY NOTE A

*Scheme for the utilisation of the Currency Reserves in such a way that the following results will be obtained*

- A—A regular reproductive development programme
- B—The abolition of the "Gamble in rain" programme
- C—The abolition of the gamble in silver
- D—The setting free immediately of 12½ millions sterling for reproductive purposes, &c
- E—The setting free of a further 13½ millions sterling when required
- F—The holding of silver or securities sufficient to pay off the entire paper currency in circulation
- G—The strengthening of the gold standard reserve
- H—The keeping of the Indian bank rate at the London level
- I—The improvement of the credit of Government
- J—Relief to the money markets of the world
- K—Increase of employment in India
- L—Relief of unemployment in England
- M—Help to secure the peace of the world

1 The gold and gold securities in the currency reserves amount to 27½ millions sterling. This is valued in the Government books at fifteen rupees to the sovereign, or 40 crores of rupees, but it can purchase silver

sufficient to coin 57 crores of rupees. As the currency notes out against this 27½ millions sterling amount to only 40 crores of rupees, there are 17 crores of rupees available in excess of what are required to encash every currency note in circulation if presented for payment to-morrow. This money (nearly 12½ millions sterling) can therefore be freed immediately and still leave sufficient silver or securities in hand to encash every note out.

2 Part of this surplus might be used for strengthening the gold standard reserve, and the balance for reproductive purposes such as railways and irrigation.

3 As regards the remaining currency reserves which would be sufficient to encash every note in circulation, fifty years ago or less it was customary to invest 50 per cent of the reserves. Now, the invested portion amounts to only 22 per cent. The difference is equivalent to a capital of 13½ millions sterling, which might also with perfect safety be set free for reproductive purposes.

4 If, however, Government desire to have this 13½ millions sterling in coin, it is still possible to have it so and at the same time proceed with the development programme, thus —As the construction of the railway or irrigation canal proceeds the cost of same to be replaced in the currency reserve either by paying in from the Government surplus in a good year or by borrowing in a bad year on the security of the extent of railway or irrigation canal constructed, or partly from the profit on coinage when available. In this way the currency reserve is kept in metal, and India is the richer by a railway or irrigation canal, and if Government secures the gold balance of trade, borrowing will be reduced to a minimum or entirely abolished.

5 Find the average silver purchases over a period of years, good and bad, and every year coin the average and a little more. This will kill the gamble connected with the existing spasmodic method of purchase and protect Government from being cornered.

6 The coined silver lying in the currency reserves to be lent at short call to the Treasury department when required by trade, the currency reserve department receiving interest thereon.

7 The Treasury balances so fortified from the currency reserves to be lent out to first-class banks at 1 per cent under the London bank rate, with a minimum of 4 per cent, on the condition that the banks relend the money to trade at 1 per cent profit. I understand that now, if the local bank rate is 8 per cent, Government expects the same, and, therefore, as the banks make no profit on the loan, they borrow as little as possible, with the result that both Government and trade suffer, the former by having its money lying idle, and trade by having to pay a high bank rate.

8 By using the gold balance of trade in the way suggested Government will have less to borrow, and its credit will improve accordingly.

9 The spending of millions sterling in railway and other material will increase employment in England.

10 The laying of the railways and the construction of canals will increase employment in India.

11 The return to Europe of the gold spent in railway material will ease the world's money markets.

12 The gold reserves will increase with the growth of the export trade, and so provide the Empire with its most powerful weapon.

D. M. HAMILTON

## SUPPLEMENTARY NOTE B

Co-OPERATION IN INDIA By S H FREMANTLE, Esq, ICS,  
Collector, Allahabad

1 Three-and-a-half years have elapsed since I read before this Association a paper on "The Progress of Co-operative Credit Societies in Northern India and Burma," and the object of my present paper is to show what further progress has been made in the interval and to discuss recent developments of the co-operative system. But before speaking about what co-operation has already effected for India and what results may be expected in the immediate future, I wish to say something about co-operation in the wider sense and to indicate from European experience what vast potentialities it has for raising not only the economic standard of the people, but their social and moral standards as well. All are aware of the extraordinary economic results which have followed the organization of co-operation in some parts of the continent of Europe. Germany, for instance, has in its agricultural districts some 24,000 societies, one for every 2,543 inhabitants. In that country and in parts of France and Northern Germany rural economy is completely organized on co-operative lines. What this means is that the peasantry combine for all purposes connected with agriculture—namely, for the provision of credit, for the supply of fodder, seeds, manure, and other agricultural necessaries, for the joint ownership of machinery, for the sale of produce and live stock, for the working up of their raw material in creameries, sugar-beet factories, distilleries, bacon-curing establishments, &c, for the mutual insurance of cattle from accident and disease, and of crops from hail, for the improvement of land by drainage and irrigation, for the maintenance of stallions, bulls and rams for breeding purposes, and for the supply of water, and even electricity and telephones. There are also cow-testing societies which employ men to go round the farms and record the milk given by individual cows, and others, known as control societies, whose employees keep the farmers' records of the money returns from each kind of crop and advise as to rotation and seeds.

2 Thus rural economy is organized on a co-operative basis, and not only rural economy, but rural social life also. For the co-operative societies from their profits and resources support many kinds of social institutions, such as village halls and libraries, village nurses, and sick and provident funds. In Sir H Plunkett's words, co-operation means for the peasant, better farming, better business, better living, better farming, because more capital will be applied to the land, better seeds, manures, implements and live stock will be obtained, and expert advice will be available, better business, because the small man by combining with others gains all the advantages of a wholesale dealer, better living, because economic prosperity and combination for business purposes bring in their train a well-ordered social and intellectual life. The people learn to think for themselves. Education and sanitation are encouraged, and a stimulus is given to the reform of social customs. The society induces the growth of a corporate life, and the mere fact that in any village a committee exists representative of all classes of the agricultural community is of great potential value to any Government and to any country.

3 Now, to turn to India, it is obvious that these manifold activities imply a wide and far-reaching organization. First, there is the small credit society in the village, easy and simple to manage, then other more complex societies, such as those for mutual insurance and purchase of agricultural necessaries, which still, however, work in the area of the village. Then there is the federation into unions and central banks and central societies for purchase and sale. And, lastly, there are the wholesale operations of these central institutions by which they bring the co-operative movement into

touch with the outside world. The control of an organization of this nature is obviously not an easy matter, and the question arises whether there is any prospect that sufficient managing ability will be available in agricultural districts in India, peasants of independent and reliable character to manage their own business in the villages, men of public spirit and education at local centres to supervise the village societies and manage the affairs of a federation, and men of large business capacity and political insight at headquarters to direct the movement as a whole and to control its relations with the outside world. Now the village is the unit of rural society. It is generally well defined, and to a considerable extent self-contained. The village headman already has duties and responsibilities, and undertakes unpaid work for his community in consideration of the prestige and privileges which this position affords him, and we find very few villages where, if the advantages of the system of Co-operative Credit are properly explained beforehand, and sufficient trouble is taken to find the best men, a reliable and influential *panchayat* cannot be obtained. These leading men may not all be educated from a narrow literary point of view, but it cannot be said that their minds are uncultivated. They have a deep knowledge of things agricultural, they are used to the conduct of business and to the exercise of authority in their own villages, and they know how to comfort themselves with independence, dignity, and self-control. As Sir F. Nicholson says, "they compare well in these respects with the peasantry of any European country." And experience has already shown us that even where education has made the least advance, suitable men after proper instruction and under proper supervision can be found to manage the affairs of their own village. But village societies need training in business methods, and their *panchayats* frequently require outside support and sometimes outside control. And they must, to get the full benefit of co-operation, combine into unions, federations and other central institutions.

4 It is in this wider sphere that our chief difficulties arise. Cultivators are, as I have said, keenly interested in the affairs of their own village, and are generally competent to manage them, but they are not qualified to control institutions operating over a large area. Here we must have recourse to another section of the people. Can we then in our small towns and country districts find men of education, leisure, and public spirit to supervise the village societies, and administer the larger institutions? Here salaried officials are no doubt necessary to inspect on the spot, and to train the village societies, and for the current work of administration, but supervision and control by men of the class to which I have referred are needed, and unless such men can be found there is little chance of that complete organization of rural life and industry on a co-operative basis which is the ideal I have set before you. A number of such men have, indeed, put their hands to the work. Sometimes they are busy professional men who devote their scanty leisure to the common good, sometimes retired officials who are accustomed to administration, and are, therefore, particularly efficient as helpers, sometimes, too, enlightened landowners, whose local influence and practical acquaintance with agriculture are of great assistance to the cause. All honour to them! But, in some districts where central institutions have been formed, very little interest is shown by the landholding and professional classes, and the only real control exercised over the salaried officials is that of the registrar and his staff. The drawbacks of this system are evident. First, the movement will become too official and too stereotyped, and, secondly, its development will be hampered because of the inability of the registrar to supervise efficiently more than a certain number of societies. For its healthy growth the co-operation of men of all classes is required, and especially that of the educated community, who by this means can show themselves to be real leaders of the people. As Smiles says in his "Self-Help" "The highest patriotism and philanthropy consist not so much in altering laws and modifying institutions as in helping and stimulating men to devote and improve themselves by their own free and independent individual action." Now this is an excellent description of the aims of co-operation, and one can imagine what an enthusiastic supporter of the movement Smiles would have been, had it been known in his day. For self-

help is the very key-note of co-operation, and, as Mr Roosevelt said "The only true way of helping a man is to help him to help himself"

5 I now turn to the second portion of my subject, and wish to tell you something of our co-operative record up to date, and of its future prospects

6 As you are no doubt aware, for each province of British India, except the North West Frontier and Baluchistan, a registrar of Co-operative Credit Societies has been appointed, and, except in Ajmere-Merwata, he is a full-time officer. He is generally a covenanted civilian, and has an assistant belonging to the provincial service. He has also a staff of inspectors or auditors for organisation, inspection, and audit. The combined statements published by the Government of India show that at the end of the year 1910-11 there were in existence 5,432 societies, of which 4,957 were rural societies. There were 304,101 members, and the working capital was 206½ lakhs. Considering that the movement is still only eight years old, these are very remarkable figures. Taking the average number of members of a household at five, they indicate that 1,500,000 of the population of India are assisted by one or other form of co-operation. And the movement is growing fast, for the provincial reports of the present year, some of which I have had the advantage of seeing, indicate that the increase for the year will be nearly 50 per cent. And this rate of increase is likely to be maintained for some time, since the institution of new centres of organisation and control is rapidly spreading the knowledge of the system over wider and wider areas, and facilitating the formation of new co-operative societies.

7 With a movement already so large and so rapidly growing and fraught with such far-reaching possibilities for the economic, moral, and social elevation of agricultural India, it is obviously of the first importance that development should be on the soundest lines. Co-operation has become a science, and, besides the experience which we have acquired in India, we have that of many European countries in different stages of development to guide us. There are some principles inherent in all true co-operative systems which are of universal application, and cannot, in spite of well-known differences in economic conditions, be safely ignored. I wish, therefore, to call attention to those principles, and to the dangers to which neglect of them is likely to lead.

8 The first principle is that the movement should be self-supporting and self-reliant, and should not depend unduly on Government or any central institution not built up by itself, whether subsidised by Government or not. The danger of officialism I have already mentioned. There is also, of course, the opposite danger. *In India's present stage of development the movement cannot progress without official assistance and encouragement, and some measure of official control. These, however, should be provided by the registrars and their trained staff,* and it is only in exceptional cases and in the more backward parts of the country that local officials, busy men with no special training for the work, should be encouraged to take active steps in the organisation and inspection of societies, though at the head of non-official institutions for controlling and financing the societies the assistance of district officers is most useful. Hence registrars, though themselves officials, make every effort to guide and control the movement through the agency of non-officials, whose interests lie in the locality where the work is being carried on, and they ask for as little financial assistance as possible from Government. The proportion of funds provided by the State is only 4 per cent of the whole, and shows a decided tendency to decrease. In fact, it has been found in India, as elsewhere, that a movement sound in itself, has no difficulty in attracting capital, and, except in two provinces, Government loans have practically stopped. But Bombay and Eastern Bengal still rely greatly on State aid, and this fact, indicating as it does that the societies have not as yet succeeded in gaining the confidence of investors, points to the necessity for a cautious policy of advance. In Bombay, too, a large capitalist bank has been formed by the assistance of State guarantees to loan money to the societies. The loans are made on the advice of the registrar, and already amount to over 20 lakhs of rupees. It would have been more in accordance with co-operative principles if central banks had been built up

by the local co-operative societies themselves, with the assistance of local capitalists, as has been done in other provinces. Such central banks would have first-hand knowledge of the requirements of local societies, and could arrange to supervise them as well as finance them. The facilities given in obtaining funds from outside the movement tend to obscure the need for combination and federation among the societies themselves, and so interfere with the complete development of a co-operative organisation. Such facilities also serve to obviate the necessity which would otherwise exist of attracting local capital to the movement. But the habit of investing savings needs to be encouraged, and the sense of responsibility which the engagement of local capital entails, is the best guarantee for sound business management.

9 A second principle is that a real demand should exist for a society before it is actually formed. By the existence of a real demand I mean that the people in whose interests a society is organised appreciate the advantages it will bring and the conditions which alone will make it a success. These conditions are punctuality of repayment, an understanding, faithfully carried out, to declare existing debts and to borrow in future from no outside source, and the employment of loans solely for the purpose for which they are granted. If these conditions are impressed on the people beforehand, so that they are fully understood and accepted, success will be practically certain. On the other hand, experience shows that, if loans have once been given out without prior instruction in and acceptance of these conditions, it is almost impossible to get them attended to later, and failure is the result. It follows that every one in sympathy with the movement is not qualified to organise a society. The organiser should be a man acquainted with the principles and practice of co-operative banking, and with the practical difficulties which arise in organisation. The rate of advance thus depends on the available supply of trained organisers, and to meet this demand a large number of non-officials sent by central banks and co-operative unions, by courts of wards, and by zemindars, anxious for the welfare of their tenantry, have been trained by the registrars.

10 A third principle which I should like to mention is this, that in a co-operative institution, capital should be the servant and not the master. It should be entitled only to a fixed return, not to extra claims of any kind, whether they are called dividends or profits or bonuses. All extra profits should go to the users of the society. Thus, in a credit society, after due provision has been made for reserve, profits should go to reduction of interest to the borrowers. In a distributive society, such as a co-operative store, they should go to the customers, and in a productive society, such as a creamery, to the suppliers of the raw material. In each case capital is entitled only to a fixed return, which will, of course, vary in different countries according to the rates of interest current therein. Experience shows that speculative businesses are unsuitable for organisation on co-operative lines. All such should be left to private enterprise. An ample field will still remain for co-operative institutions, and, as the capital engaged in them incurs no risk, it is obviously entitled only to a fair and fixed return. On these terms, as experience again shows, funds are always available from banks and private depositors who are in search of safe investments. There is no need to attract capital which looks for large returns, and we want to hear no more of dividends of 15, 18 and even 20 per cent, such as have been recently paid in Eastern Bengal. This means the introduction of a dividend-hunting element, and leads to a conflict of interests between the shareholders and the users of a society, whereas it is the latter's interests alone which should receive consideration.

11 I have not left myself very much time in which to discuss recent developments of the co-operative movement. It has not yet reached its teens, and the efforts of the registrars are, in a great part, directed to the co-operative education of the institutions under their charge. For it is very important that the true aims and ideals of co-operation should receive early chance of development on the soundest possible lines.

12 On the first introduction of co operation to every country difficulties have arisen in connection with finance, and India has been no exception to the rule. The question has been settled in Bombay by the establishment of Sir V Thackersey's bank to which I have already alluded. Madras has also a large capitalist bank, formed, however, without any guarantee from Government. In the Central Provinces the difficulty has been solved by the organisation, during the present year, of a Provincial Co-operative Bank. The required capital, 5 lakhs, was at once subscribed by the leading gentlemen of the province, and the Allahabad Bank has agreed to provide further funds at 6 per cent on condition that the provincial bank does not take deposits. This provincial bank will lend money to the central banks out in the district at 7 per cent, and will also entertain an inspecting agency to control the latter. It is not quite clear whether the provincial bank is organised on co-operative lines, so that the central banks financed by it are encouraged to become shareholders, and that the interests of borrowing banks are safeguarded against those of capitalists. If so, there can be little fault to find with an organisation consisting of a provincial bank which finances and controls the central banks, and of central banks which, in their turn, finance and control the rural societies. The only danger to be guarded against is that the central banks will find it so easy to get money from the provincial bank that they will make no great effort to attract deposits, and so make use of local savings for local development.

13 In the Punjab, United Provinces and Bengal no attempt has yet been made to form a Provincial Central Bank. In the Punjab, indeed, the yeoman farmers, from which class most of the members are drawn, are so prosperous that they themselves supply two thirds of the capital used by the societies, and the central banks and unions which provide the remainder have no difficulty in raising what they require from local capitalists or from the joint-stock banks. In the United Provinces the district banks, which provide the largest proportion of the funds of rural societies, are supplied chiefly by the deposits of local capitalists, but they nearly all have cash credit accounts with one or other of the joint-stock banks. In Western Bengal the capital is found chiefly by large zemindars and other capitalists, and is furnished to the rural societies either direct or through unions formed for this purpose. In Eastern Bengal urban societies supply a large portion of the required funds.

14 Rural societies in Bengal and Behar, in Bombay and the Central Provinces, are usually organised on pure Raiffeisen lines. In the Punjab, United Provinces and Burma a new type of society has sprung up which, though it retains the main principles of the Raiffeisen system—*i.e.*, the unlimited liability, the restriction of area, the issue of loans for a definite time and for a definite purpose, and the unpaid services of officers to their societies—yet requires each member to subscribe a share of a substantial amount. Each member must take up one share, and may take up more. The share is paid by half-yearly instalments spread over 10 or 12 years, and varies in amount from Rs 10 to Rs 200, according to the circumstances of the society. Thus on each share a six-monthly instalment has to be paid, varying from 8 annas to Rs 10. Shares are not entitled to dividend till the 10 or 12 years have elapsed, and they are fully paid up. In the Punjab and Burma the share capital is withdrawable at the end of this period, but the profit, after provision has been made for reserve, is to be divided among the members in proportion to their shares, and credited to them as non-withdrawable shares on which dividend will be paid. In the United Provinces the shares are not withdrawable at all, and the dividend is by the bye-laws limited to 10 per cent. It is necessary in this type of society to keep the amount of the half-yearly payment down to such a sum as any person otherwise eligible can afford to pay, and if this is done the type seems to me to be better suited to Indian conditions than the pure Raiffeisen type, which has no or merely nominal shares. It certainly has the following advantages. First, the mere fact that members are required to make some small sacrifice in order to join the society is a

good guarantee that they have some appreciation of the advantages to be derived from it, and that they will therefore adhere to the conditions necessary to make it a success. Secondly, the possession by each member of a stake in the society proportionate to his status gives him a substantial and positive interest in it, in addition to the somewhat shadowy and negative interest which his unlimited liability for its debts implies. Thirdly, the practice of saving, enforced over a period of years, should go far to encourage the habit of investment, and teach the uses of capital.

15 Perhaps I may, finally, be allowed to call attention to the small societies of craftsmen, artisans, and small tradesmen which have been formed in considerable numbers in my own province, the United Provinces. They have, so far as I know, no prototype, though in some towns in Italy some societies are composed only of persons following the same trade or occupation. But those are on a larger scale. Our societies are small associations of men of the same or a similar trade, and the members are all residents of the same village or quarter of the town. Among those who have formed societies are weavers of cotton, silk and wool, fruit and vegetable sellers, carpenters, boatmen, ekka-drivers, and many others. These societies have unlimited liability, and are generally of the same type as the agricultural societies mentioned above, though in non-seasonal trades the share is paid up by monthly instead of six-monthly instalments. In many weavers' societies the amount of the instalment is only one anna monthly, and the value of a share Rs 9—an amount which it will take 12 years to pay up in full. The conditions of hand-loom weaving have for years past received much attention, and it is now generally held that there are at least some branches of the industry which—if they can escape from the economic bondage under which they suffer from the buyers of finished goods and the suppliers of raw material, and if they can be induced to adopt improved methods, such as the use of the fly-shuttle and of special appliances for setting up the work—have every chance of competing successfully with power looms. It is, therefore, the object of the co-operative organisation not only to provide the required capital, and to organize the supply of yarn and the marketing of finished goods, but also to encourage the adoption of the improved methods mentioned above. Already considerable success has been attained. We have found the weavers somewhat slow to make the first move, but ready enough to follow the example of their neighbours, and they are remarkably punctual in meeting their engagements. In one small town alone (Tanda, in the Fyzabad District) there are 20 societies, with 541 weaver members, and a central bank for finance and organisation, while another small town (Sandila, in the Hardoi District) has combined with its weavers' credit society a yarn store, which sold last year yarn to the value of Rs 46,000, and paid a bonus of two pies in the rupee on purchases.

16 Such are some of the developments of which I wish to speak, and they may, I think, be regarded as symbolical of the great future which lies before the movement. India is indeed for co-operation a land of promise. I saw recently in the *Irish Homestead*, a weekly paper full of illuminating ideas and inspiring ideals, a striking analogy between irrigation and co-operation, those two forces on which the prosperity of rural India so largely depends, and I will close my paper by quoting from it —

“Co-operation may be called industrial irrigation, the opening of channels, tunnels, pipes and viaducts leading from the rich centres of capital and industry to the economic wastes and deserts. If we examine any modern country we will find in some places a superabundance of capital, and elsewhere whole dreary districts where industry languishes because of the lack of the fertilising influence of cheap money. The banks are overloaded with deposits on which they give a very small return to the depositor. The cities are filled with factories which might be more productive if the countryside could find a way of utilising the labours of mechanical engineers and inventors. The country is thirsty for lack of gold. It is backward because the city is



the repository of science of knowledge as well as of wealth. On the one side we have a superfluity of capital, science and mechanical skill. On the other side, an economic desert where, because these things are sparse, there is little life or progress. Agricultural organisation does for the economic desert what the adventurous engineer does for the dry desert in America or Africa. It creates the viaducts along which flow capital, science and mechanical skill to the country districts."

S H FREMANTLE

[N B—This paper was read before a meeting of the East Indian Association, London.]

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## APPENDIX XVII

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### STATEMENT OF EVIDENCE submitted by MESSRS TOOMEY AND FRASER, representatives of the Exchange Banks

1 With reference to the invitation we have received to give evidence before the Royal Commission on Indian Finance and Currency, we now beg to put the following short statement before you as to the nature of the evidence we shall be prepared to give

2 The location and management of the general balances of the Government of India—We see no objection to the methods hitherto adopted by the Government of India

3 The sale in London of Council Bills and transfers—We would deprecate any change being made in the sale of Council Bills. The present system is admirably adapted to the requirements of trade, the amount put up weekly for tender being well regulated by probable requirements, while additional amounts can be obtained at a small premium. We consider that the sale of Council Bills is well handled, the system adopted being the outcome of many years' experience

4 The measures taken with regard to the location, disposition, and employment of the Gold Standard and Paper Currency Reserves—As regards the Gold Standard Reserve we consider that the whole amount should be kept in this country in gold and gold securities, and that the latter as far as may be practicable should consist of short term securities. We further consider that a much larger proportion of the reserve should be retained in actual gold than has been the custom in the past. All profits on the coinage of rupees should be credited to the reserve, as we are strongly of opinion that the time has not yet arrived when it is safe to place a limit on the amount of the reserve. We do not approve of any portion of the reserve being held in silver.

5 As regards the Paper Currency Reserves, we hold that a proportion of these should be kept in this country in gold, and so could be made immediately available for purchases of silver, or released in case of need against the deposit of rupees in India. When gold is available in India, the Currency Note Department should, in normal times, be prepared to readily pay out sovereigns against notes and/or rupees

6 We are given to understand that among other points which may come up for discussion are —

- (1) The enlargement of the powers of the Presidency Banks
- (2) The establishment of a State Bank for India
- (3) A mint for the free coinage of gold

7 The question of the enlargement of the powers of the Presidency Banks so as to permit them to deal in sterling exchange is one which has been brought forward from time to time during the last 50 years, and has been steadily vetoed by the Government of India and successive Secretaries of State. The last time that this question was raised was in 1904 when it was proposed —

- (1) That the Presidency Banks should be allowed, when the bank rate in India is 6 per cent or higher, to borrow in London for the purpose of remitting funds to India
- (2) That the banks should be permitted to deal in foreign bills so far as is necessary to enable them to remit the money borrowed to or from India

The Government of India, with the approval of the Secretary of State, declined to grant the powers sought by the Presidency Banks, and the reasons for this decision were fully explained by the then Finance Minister, in his speech reported in the "Gazette of India" of 16th February 1907, of which we attach a copy

8 The Exchange Banks at that time felt it incumbent on them to strongly oppose the proposals of the Presidency Banks, and we should do so again on the same grounds, *i e.*, that while we do not depreciate ordinary competition by competitors on the same level as ourselves, we strongly object to State-aided competition

9 The Presidency Banks enjoy the prestige of being the Government bankers with immense sums of public money free of charge, whilst we are handicapped by having to pay interest on the whole of our deposits

10 The Exchange Banks have financed the external trade of India for over 50 years without any charge of inefficiency or unreasonable charges, and with the large resources at their command they are fully competent to deal with all the exchange business of the country

11 We maintain that the legitimate function of the Presidency Banks is to finance the internal trade of the country for which they enjoy special privileges in having large amounts of money without charge. If, however, these banks require further funds for their business it is open to them to raise additional capital in the same way as many of the Exchange Banks have done

12 It is contended in some quarters that the Government of India should lend some of its surplus balances for the benefit of trade during the busy seasons, and we see no reason why this should not be done in the same way as the Secretary of State lends money in this city, on first-class securities. Our view is that money should be lent to the Presidency Banks for short periods on Government paper, Post Office Bonds, and the like—the money being lent at somewhat less than the ruling bank rate

13 We attach the same objections as the foregoing to the establishment of a State Bank

14 Banking in India is already well represented in all its branches by the Presidency Banks, Exchange Banks, and numerous local banks. No State Bank could, in our opinion, cater for the requirements of the many millions of cultivators who are at present dependent for finance on money-lenders. Their needs could be best supplied by encouraging and developing the system of co-operative credit which under the sympathetic support of the Government has made great progress during the last few years

15 The Presidency Banks fulfil the functions of a State Bank in their respective spheres, they have their capital and resources available for the benefit of their own particular province, and to absorb these into a central institution would, in our view, militate against efficiency. The Presidency

Banks as they exist are in reality three "State Banks," and, with their head offices in Calcutta, Bombay, and Madras, are better equipped for studying the wants of their respective provinces than one central bank could possibly be, and we are unable to see how such a bank could foster the development of trade as well as it is being done by the existing machinery. Further, a State bank with the control of the Government money, the paper currency, and access to the London market would virtually mean the establishment, so far as exchange is concerned, of a banking monopoly which we feel is not desirable or advisable in the best interests of India and its trade.

16 We consider that the existing Currency Department with the assistance of hundreds of Government treasuries and sub-treasuries penetrating into remote districts, to which it would not pay a bank to go, is much better fitted to manage and develop the Paper Currency than a State bank would be. The remarkable growth of the Currency Note issue, particularly in recent years, testifies in some measure to the efficiency of the existing system, and it is scarcely likely that a State bank could foster the extension of the note issue so well as these Government Treasuries.

17 In our opinion existing conditions in India do not call for the establishment of a mint for the free coinage of gold, seeing that the country obtains all the sovereigns it requires free of minting charges. If, however, it should at any future date be deemed advisable to open such a mint, we advocate the coinage thereof of the sovereign.

(Signed) J. A. TOOMEY,  
T. FRASER

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#### SUPPLEMENTARY NOTE TO APPENDIX XVII

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Extract from "The Gazette of India," dated February 16th 1907

##### PRESIDENCY BANKS (AMENDMENT) BILL

The Honourable Mr E N Baker, C S I, moved that the report of the Select Committee on the Bill further to amend the Presidency Banks Act, 1876, be taken into consideration. He said "I will take the opportunity of offering some observations on one point which is not referred to in the Report—I mean the question of allowing the Presidency Banks to borrow in London."

"Disappointment has been expressed by the Chambers of Commerce that this proposal, which had been under consideration for some time, should have been abandoned, and some of them have asked for a statement of the reasons which have led to this result. The request is reasonable, and I shall endeavour to comply with it.

"At the outset I may observe that the question is one on which there is a good deal to be said on both sides. The financial advisers of the Government of India at different times have held different views regarding it, and when we find such high authorities as Mr Barclay Chapman and Sir John Strachey holding one opinion, while Sir James Westland held a contrary one, and Sir Chnton Dawkins only assented to the proposal on conditions which were quite unacceptable to the banks, a cautious person would probably be disposed to regard it with prudent reserve. But there is one authority which, since the proposal was first originated over forty years ago, has never wavered in his views on the subject, and that is the Secretary of State. Now I would remind the Council that the Secretary of State has access to the highest expert banking advice in London, *i e*, probably in the world, and it is a well known fact that, acting on that advice, each successive Secretary of State to whom the proposal has been submitted has refused to entertain it. This fact, I think, possesses no small significance.

"The reasons for not adopting the proposal are these. Firstly it is not clear that to give the Presidency Banks access to London would really increase the net aggregate facilities for importing capital into India. The Exchange Banks with their large capital and resources collected from many parts of the world, and free from the special restrictions which necessarily attach to the Presidency Banks, possess ample facilities for supplying all the capital that Indian trade requires. To admit the Presidency Banks into this class of business would add a new channel of import, but would in no way increase the supply of capital offering. If it is the case that the total funds imported to India in the busy season would not be increased by the means in question, it is preferable in the public interest that the business should be left to the Exchange Banks, rather than that the Presidency Banks should be enabled to embark upon it. This I shall now endeavour to show.

"I am not now referring to the risks which were formerly held to attach to engaging in foreign exchange business. That objection was a powerful one in former days, but with a stable exchange it has lost almost all its force. The objections to which I allude are of a different character.

"It is of course well understood that the Presidency Banks could not legitimately be allowed to receive deposits or engage in ordinary banking business in London. If, therefore, they were allowed access to London it would mean merely that they would be permitted to borrow in that market (subject to certain restrictions), to remit the funds thus borrowed to India, and, after the term of the loan had expired, to return the money to London for repayment. In other words, all sums thus brought out to India by the Presidency Banks would have to be remitted back to London, after a comparatively short interval. Now with the Exchange Banks that is not wholly the case. Part of what they import, no doubt, goes back again, but part of it at least remains in this country, even during the slack season. This has been shown, among other things, by the comparatively small reflux of gold which has taken place each year at the end of the busy season. The capital, which thus remains in India, and is not re-exported, is available for investment in our rupee loans, which are always floated in the summer months, and improves the rate which we obtain for them.

"If, therefore, we allow the Presidency Banks to attract to themselves part of the business of importing capital which is now done by the Exchange Banks, one result would be that the issue price of Government loans would be likely to suffer.

"Another result of analogous character would be that the average rate obtained for the Secretary of State's Council drawings would probably be lowered. The necessity for returning the money to London when the busy season was over would depress exchange during the slack months. And this would not be counterbalanced by a rise during the busy months, for during the latter exchange is always high, and could not be raised appreciably higher without touching specie point. The net result for the whole twelve months would thus be a fall.

"A third objection is that a Presidency Bank which had taken a sterling loan for a fixed term might be forced to denude itself of resources in a time of stringency in order to repay it when due. This danger may be regarded as theoretical rather than practical, but it is a contingency which cannot be wholly overlooked in a general review of the position.

"Lastly we have to consider the effect on the Exchange Banks themselves of permitting the Presidency Banks to embark upon even a limited competition with them in financing the foreign trade of the country. The Exchange Banks play a most important part in providing for the requirements of this trade, and hitherto they have, I believe, discharged their functions to the general satisfaction of the commercial public. They have, of course, no claim to be protected against competition in their business, but the competition must be on equal terms and they might fairly complain if they were required to enter the lists against a State-aided competitor. It has sometimes been affirmed that the use of the Government balances free of interest, and the general prestige which attaches to the position of State bankers are of comparatively little value, and are counterbalanced by the restrictions which are imposed by the law and the contracts

made thereunder. I do not think that rivals in the same field can be expected to regard the matter in the same light. The Government balances are usually about 3 crores of rupees, say five-sixths of the aggregate paid in capital of the three Presidency Banks taken together. It cannot reasonably be disputed that the free use of this very large sum must be of the greatest value to the banks, and I may mention that occasions have occurred, not so very long ago, when the Government balances at one or other of the banks actually exceeded its whole cash resources. If the Exchange Banks are apprehensive of having to encounter such powerfully aided competitors, one cannot regard their apprehension as altogether unreasonable.

"These, my Lord, are the reasons which have led to the decision not to pursue the proposal to give the Presidency Banks power to borrow in London. We all sympathise with the desire of the Chambers of Commerce to afford facilities for the easy provision of cheap capital, but it is open to doubt whether this particular measure would really increase existing facilities, while it is likely to be attended by drawbacks and disadvantages of its own.

"I do not think I need offer any remarks on any other provisions of the Bill."

The motion was put and agreed to.

The Honorable Mr. Baker moved that the Bill as amended be passed.

The motion was put and agreed to.

The Council adjourned to Friday the 1st March 1907.

Calcutta,  
The 15th February 1907

J. M. MACPHERSON,  
Secretary to the Government of India,  
Legislative Department

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APPENDIX XVIII.

STATEMENT HANDED IN BY MR TOOMEY (with reference to Question 2769)

NATIONAL BANK OF INDIA, LIMITED

Week ending	Percentage in			Average			Percentage relative to Total Receipts			Branch	Percentage in			Average			Percentage relative to Total Disbursements		
	Currency Notes	Rupees	Gold	Currency Notes	Rupees	Gold	Currency Notes	Rupees	Gold		Currency Notes	Rupees	Gold	Currency Notes	Rupees	Gold	Currency Notes	Rupees	Gold
10 May 1913 -	89½	10½	1¼							Calcutta	97	2½	1¼						
17 " " -	91	8½	1¼								96	3½	1¼						
24 " " -	87½	12	1¼								96½	3¼	1¼						
31 " " -	91	8½	1¼	90	9½	¼	22 47	2 41	06		97	2½	1¼	96½	3	¼	23 32	71	06
10 " " -	98½	1¼	1¼							Bombay	99 2/5	1/5	1/5						
17 " " -	97½	1½	1 1/5								99½	1/5	1 1/5						
24 " " -	97½	1 1/5	1 1/5								99½	1/5	1 1/5						
31 " " -	98½	1½	1½	98½	1 1/5	1 1/5	38 10	17	55		99½	1/5	1 1/5	99½	1/5	1 1/5	38 72	05	14
10 " " -	97½	2½	1¼							Madras*	97½	2	1½						
17 " " -	95	4½	1¼								96	3	1						
24 " " -	95½	4½	1¼								98½	1	1¼						
31 " " -	95½	4	1¼	95½	3½	3/8	11 07	43	04		98	1½	1¼	97½	1½	1½	11 72	24	08
10 " " -	98	1	1							Karachi	98½	1	1						
17 " " -	98½	1	1								98½	1	1						
24 " " -	97½	1½	1								98½	1½	1						
31 " " -	96½	2½	1¼	97½	1 1/5	1 1/5	5 79	08	06		97½	1½	1¼	98 1/5	1 1/5	3/8	6 30	06	08
10 " " -	31	27	42							Delhi -	8	45	47						
17 " " -	25	39	36								6	62	32						
24 " " -	27	33	40								22	45	33						
31 " " -	25	46	29	27	36½	36½	50	67	68		9	43	48	11½	48½	40	12	67	55
10 " " -	86	2½	11½							Lahore	90	1/5	9½						
17 " " -	87½	8½	3½								84	12½	3½						
24 " " -	96	1	2½								97½	1	2½						
31 " " -	71½	19½	8½	85 1/5	8 1/5	6½	1 58	15	12		82½	9	8½	88½	5½	5½	2 10	11	11
	—	—	—	493½	59½	46½	79 51	3 91	1 51		—	—	—	491½	60½	47 1/5	82 28	1 84	97

\* 12th May a holiday

NATIONAL BANK OF INDIA, LIMITED—continued.

Receipts.

Disbursements.

542

Week ending	Percentage in			Average			Percentage relative to Total Receipts			Branch	Percentage in			Average			Percentage relative to Total Disbursements								
	Currency Notes	Rupees	Gold	Currency Notes	Rupees	Gold	Currency Notes	Rupees	Gold		Currency Notes	Rupees	Gold	Currency Notes	Rupees	Gold	Currency Notes	Rupees	Gold						
Forward	-	-	-	493 $\frac{3}{4}$	59 $\frac{3}{4}$	46 $\frac{1}{2}$	79	51	3	91	1	51	-	-	-	491 $\frac{3}{8}$	60 $\frac{3}{8}$	47 $\frac{1}{8}$	82	28	1	84	97		
10 May 1913	33 $\frac{1}{2}$	34	32 $\frac{1}{2}$										36	38	26										
17 "	24	36	40										19	55	26										
24 "	36	38	26										25	48	27										
31 "	23	45	32	29 $\frac{1}{2}$	38 $\frac{1}{2}$	32 $\frac{3}{8}$	86	1	12	94			33	37	30	28 $\frac{1}{2}$	44 $\frac{1}{2}$	27 $\frac{1}{2}$	92	1	65	91			
14 "	53	30	17										60	29	11										
21 "	58	19	23										66	27	7										
28 "	66	19	15										51	14	35										
4 June	70	15	15	61 $\frac{1}{2}$	20 $\frac{3}{4}$	17 $\frac{1}{2}$	1	23	40	34			73	13	14	62 $\frac{1}{2}$	20 $\frac{3}{4}$	16 $\frac{1}{2}$	1	25	39	31			
10 May	6	13	81										2	11	87										
17 "	4	9	87										1	6	93										
24 "	2	8	90										7	9	84										
31 "	3	20	77	4	13	83	05	16	1	02			2	21	77	3	12	85	04	16	1	30			
10 "	23	76	1										27	72	1										
17 "	84	15	1										70	29	1										
24 "	95	4	1										73	26	1										
31 "	92	7	1	73 $\frac{1}{2}$	25 $\frac{1}{2}$	1	82	26	01				68	31	1	59 $\frac{1}{2}$	39 $\frac{1}{2}$	1	90	58	01				
10 "	7 $\frac{1}{2}$	92	$\frac{1}{2}$										23 $\frac{3}{4}$	76	$\frac{1}{4}$										
17 "	7 $\frac{1}{2}$	92 $\frac{1}{2}$	$\frac{1}{2}$										15 $\frac{1}{2}$	84 $\frac{1}{2}$	$\frac{1}{2}$										
24 "	5 $\frac{1}{2}$	94 $\frac{1}{2}$	—										8 $\frac{1}{2}$	91 $\frac{1}{2}$	$\frac{1}{2}$										
31 "	6 $\frac{1}{2}$	94	$\frac{1}{2}$	6 $\frac{1}{8}$	93 $\frac{1}{4}$	$\frac{1}{8}$	07	1	00	—			13 $\frac{1}{2}$	86	$\frac{1}{2}$	15 $\frac{1}{2}$	84 $\frac{3}{8}$	$\frac{3}{8}$	09	53	—				
10 "	94 $\frac{1}{2}$	5 $\frac{1}{2}$	$\frac{1}{2}$										98 $\frac{1}{2}$	1	$\frac{1}{2}$										
17 "	92 $\frac{3}{4}$	7 $\frac{1}{4}$	$\frac{3}{8}$										96	3 $\frac{1}{2}$	$\frac{1}{2}$										
24 "	84 $\frac{1}{2}$	14 $\frac{1}{2}$	1										97	2	1										
31 "	93 $\frac{3}{4}$	6 $\frac{1}{4}$	$\frac{1}{4}$	91 $\frac{5}{8}$	8 $\frac{5}{8}$	$\frac{1}{8}$	5	08	46	02			96 $\frac{1}{2}$	2 $\frac{1}{2}$	1 $\frac{1}{2}$	97	2 $\frac{3}{8}$	$\frac{1}{8}$	4	61	10	04			
17 "	46	54	—										35	65	—										
24 "	57	43	—										65	35	—										
31 "	37	63	—	46 $\frac{3}{8}$	53 $\frac{1}{4}$	—	59	64	—				53	47	—	51	49	—	58	54	—				
	—	—	—	806 $\frac{1}{8}$	312 $\frac{7}{8}$	181 $\frac{1}{8}$	88	21	7	95	3	84	—	—	—	—	808 $\frac{5}{8}$	312 $\frac{1}{2}$	179	90	67	5	79	3	54
							100 per cent													100 per cent					

ROYAL COMMISSION ON INDIAN FINANCE

## APPENDIX XIX

STATEMENT OF EVIDENCE SUBMITTED BY MR HARRY MARSHALL ROSS, RETIRED  
CALCUTTA EXPORT MERCHANT, LATE HONORARY SECRETARY, CENTRAL  
COMMITTEE, INDIAN CURRENCY ASSOCIATION*Cash Balances.*

1 I am of opinion that the charge made against the Secretary of State in Council, of having withdrawn funds from India for the benefit of London, is based upon a confusion of currency with capital. That the fault if any, lay in the original under-estimates of revenue and not in the release of the currency accumulated as the result of these under-estimates. That Budget estimates have, of late years, been unduly pessimistic. That, while the Secretary of State was right in releasing surpluses as speedily as possible by sales of bills and transfers thereagainst, the necessity for retention of excessive balances in London has not been proved, the explanation of the India Office [Cd 6619] being more an excuse and an apology than an adequate defence, and that surpluses of revenue in India should, as in England, go to a sinking fund for the reduction of debt.

2. The collection of revenue used, in my time in India, to adversely affect the money market and was the cause of stringency during the busy season. Having left India over nine years ago, I am unable to say from actual experience where the same inconvenience is now felt, but should this be so, measures might, perhaps, be taken to make such collections available for use, not only as now by sales of bills and transfers, but also by way of loan to banks in India, on security, and in excess of the balances kept with the Presidency Banks.

*Gold Standard or Gold Currency.*

3 The remarkable expansion of trade which has taken place since the closure of the mints shows that the present system of a gold standard unsupported by a gold currency has worked, on the whole, satisfactorily and well. The total sea-borne trade of India, treasure included, was —

	Crores			
	—			
In 1874-75	-	-	-	- 102
„ 1893-94	-	-	-	- 206
„ 1912-13	-	-	-	- 485

The progress under closed mints has been vastly greater than under open mints. I have included treasure in these figures as it is, in India, so largely an article of merchandise and transactions in it require the employment of currency. The finance of the great trade shown above will have required the large additions to the currency which have excited alarm in some quarters. The progress which the country has made in wealth and the rise in prices which has been world-wide, will also have called for the employment of more currency, and I do not, therefore, think that the coinage of rupees since the closure of the mints has been particularly abnormal.

4. A notable witness to the benefits conferred on India by the present currency system is Mr M de P. Webb. In 1898 he described the poverty of the country as follows:—

“The poverty of the great mass of the people renders a gold coin or gold in any form entirely beyond their means. . . . The native money-lenders would continue to receive 12 per cent to 75 per cent per annum for ordinary temporary accommodation, and they would not and could not use and demand that gold capital, the assumed advantages of which are one of the main foundations of the present proposals to abandon India's silver standard. . . . The gold standard, with or without a gold currency, could not, for the reasons already given, prove otherwise than injurious to the commerce of India, to the revenues of the Government and to the well-being of the great mass of the population” (Memorandum on the Indian Currency, p. 15)



5 In 1912 Mr Webb wrote "Probably more individuals in India are in a position to use gold coins than in the United Kingdom!" ("Britain's Dilemma," p 147)

6. I am as strongly opposed to forcing a gold currency upon India, which would seem to be the intention of some critics of the existing system, as I am to arbitrary interference with India's undoubted right to take gold if she is ready and willing to pay for it. I would respectfully submit that what is wanted is a code of clear regulations on the subjects now engaging the consideration of the Royal Commission, and measures for ensuring that those regulations shall be faithfully and unvaryingly adhered to. In the past we have never known where we really stood, what were the Government's intentions, nor what new surprise might not suddenly be sprung upon us. However, I think there is evidence to show that the Government was often as perplexed as the public. That, despite such hindrances, the Currency Scheme has, on the whole worked well, is ample justification for the general line of policy pursued since the mint closure.

#### *Sale of Council Bills*

7 Objections have been raised to the present practice of liquidating the Government of India's home liabilities, and alternative methods have been suggested. I do not find that the alternatives proposed are themselves free from objection. These alternatives are—

- (1) that the Indian Government should pay its home charges through the medium of certain Indian banks

*Objection*—Jealousy would be aroused by the selection of these banks, and by the allocation of their respective proportions of the business. Such selection and allocation would not improbably give rise to the suspicions and inuendoes which have attended the distribution, in loans, of the India Office balances. Again, if the remittances were made at the best rates obtainable, without regard to the amounts remitted through the respective banks, this alternative would merely be equivalent to transferring the auction from London to India.

- (2) That Council Bill should be sold only at 1s 4d, or "not below the rate at which rupees can be procured from other sources"

*Objection*—(a) The holding of Councils for a fixed minimum has not been a success in the past, (b) the minimum of the Secretary of State is the maximum of the market, so that, when the rate is approached, the Indian exporter would refuse to sell, *i e*, would withhold his bills, while the importer would hasten to buy wire in excess of his requirements. The former could not do worse, the latter could not do better, by waiting. These manoeuvres would always tend to check the rise to the minimum, and although the Secretary of State might, ultimately, sell his bills he would always be the last to be served.

8 Whether Councils should be sold without limit, or only to the extent of the Budget requirements, should depend chiefly upon the nature of the trade demand for currency. If that demand is for rupees, while gold rests or accumulates in the Treasuries and Paper Currency Department, every reasonable facility should be afforded towards the satisfaction of the demand, since the Government is the ultimate and sole provider of silver currency. Sales of Council Bills and Transfers should not, however, in my opinion, be made against rupees in the Indian branch of the gold standard reserve, nor against new coinage, except at specie point.

#### *A Central or State Bank*

9 The establishment of a Central or State Bank, would, I think, be very advantageous to the country, if it could be done under due restrictions, which would prevent (1) unfair competition with the Exchange banks, (2) unfair competition with solvent and well-managed Indian banks.

10 Such a bank would augment the banking resources of India, would be a support to, rather than a competitor of, the other banks, would take over the management and extend the use of the paper currency, and would

be of assistance to the Government in the matter of finance, rather than dependent on its balances. Further, it would have a prestige superior to the Presidency Banks which it absorbed, its enlarged capital resources would be of greater service to trade than the separate and smaller resources of the existing three banks, and, lastly, it would, by opening branches all over the country, provide that absolute security for the native depositor and trader which has not, in the past, been peculiarly conspicuous as a feature of Indian banking. If the native of India is to be weaned from his habit of hoarding it can only be by inspiring him with absolute confidence in banks. But the history of Indian banking is full of disasters, which must have seriously checked the growth of such confidence. Numerous banks are springing up, of which the capital and resources are often ridiculously inadequate, and it is to be feared that, in a period of financial stress, they might not illustrate the safety of banking.

11 When we come to look at the proposed bank as a "paying proposition" I find many grave difficulties in the way. The project, as originally submitted to the Fowler Committee by Mr Alfred de Rothschild, presumed a capital of 14,000,000*l*. Could so large a capital be profitably employed in the manner suggested? To pay a dividend of 5 per cent would require net earnings of 700,000*l*.

12 The three Presidency Banks have together a capital and reserves of about 7½ crores, or 5,000,000*l*, and pay annual dividends totalling about 340,000*l*. It is difficult to see how this could be doubled, short of a heavy Government subsidy in the shape of the profits of the Paper Currency Department. Would a heavy subsidy be just?

13 Assuming that the capital of the State Bank be limited to 10,000,000*l*, requiring 500,000*l* net profit to pay 5 per cent, the absorption of the existing banks would, likewise, absorb nearly the whole of this capital. Shareholders in the existing banks would, presumably, have the option of exchanging their holdings into shares of the State Bank, or of being bought out. The market value of these holdings is now about 8½ millions sterling. With the usual "inducement" to amicable arrangement, probably 9,000,000*l* would be required to bring about the amalgamation. The actual addition to working capital would be a solitary million sterling!

14 For many years to come the extension of the branches would probably be a losing business. Ultimately, they would pay, no doubt, as there is a vast unworked field for banking in India. This was the experience of the Bank of France, on the lines of which, it is urged, the Indian State Bank should work. The Bank of France, I believe, makes advances down to 250 francs, and discounts bills as small as 5 francs. It would require a large, experienced, and probably an expensive staff, to undertake such business on a large scale with safety, in India. The Bank of France has, I think, more than ten times the number of branches that are possessed by the three Presidency Banks.

Theoretically, the suggestion of a State Bank is an inviting one, practically, it is not yet apparent that it would be a "paying proposition."

#### *Measures taken to maintain the value of the Rupee*

15 The measures taken by the Government of India and the Secretary of State in Council to maintain the exchange value of the rupee since the Report of the Fowler Committee may well be described as "supplementary to" rather than as "in pursuance of" the recommendations of that Committee. They have not been such as to inspire the public with confidence, as a rule. The mints have not been opened to the coinage of gold, the profit on coinage has not been kept in gold in India, but in securities in England, that profit was partly misappropriated for the construction of railways, and the gold reserve was not at once made available for foreign remittance when exchange fell below specie point. Lastly, after proclaiming the superiority of investments to gold for years, the Indian Government has admitted its error, or has weakly yielded to popular clamour, by arranging to hold a portion of the reserve in gold.

16 In the Budget statement of 1908, Mr E N Baker, when defending his refusal to issue gold freely in the crisis of the previous year, made use of some remarkable words concerning the Gold Standard Reserve. He said "The time and method of the employment of the Gold Standard Reserve must be at the discretion of the Secretary of State, by whom the Reserve is controlled." This is a most dangerous dictum. The Reserve should be held under regulations which would bring it into use automatically, and the public should know clearly what the regulations are. Its transfer to the care of a bank or to a special department created by legislative act, with strictly defined powers, would be greatly preferable to leaving its use dependent upon the will or whim of the Secretary of State for the time being or of his financial advisers.

17 The question of the mint is, I think, of much less importance. If the coining of gold can be undertaken comparatively inexpensively, as the Government of India believed, there would be a certain prestige, and perhaps some convenience attaching to it. But there are objections to issuing a gold 10-rupee piece. There would be the usual Oriental prejudice and suspicion towards an innovation to be overcome in the first place, then it would compete with the 10-rupee note, and possibly check its circulation, and, finally, it might become popular as a new ornament, and disappear from circulation.

*Location, Disposition, and Employment of Gold Standard Reserve.*

18 The Gold Standard Reserve should preferably be kept in London. Its purpose is to maintain the exchange value of the rupee, not to supply gold for local use. While the reserve is kept out of India, the demands upon it are limited to those of remitters.

19 *Size of the Reserve.*—If we may judge by the extent of the drain upon it in 1907–08, the reserve is at present ample, taking into account the very large amount of gold in the Paper Currency Reserve. I attach more importance to the resolution and confidence with which the Currency Scheme is backed than to the mere size of the reserve. A comparatively small reserve, backed by a resolute policy, would give the public more confidence, and do more to prevent or allay panic than a larger reserve with a continuance of the irresolution and vacillation which have often been apparent in the past.

20 I do not think that the reserve should be unlimited. Its size should be fixed on some reasonable basis, not merely arbitrarily. Its fixture arbitrarily is merely guess-work. It might be fixed on a basis of experience, or of analogy and comparison. In the former case we could go upon the actual loss of gold in the crisis of 1907–08, say, from all sources, about 17,000,000*l* (the actual export or transfer of gold out of India was only about 13,000,000*l*) plus the Council Bill shortage. To this a reasonable margin for "apprehension" should be added. If we start on a basis of analogy and comparison, we may liken the liabilities of the Government under the scheme to those of a banker. It will be necessary to estimate those liabilities. The estimate of the rupees in circulation at the time of the Fowler inquiry was 120 crores. The Committee did not vouch for these figures, and I think that a serious attempt should be made to estimate the circulation, even roughly, now. An estimate of 200 crores would give about Rs 7 per head of population. Now, the English joint stock banks keep about 23 per cent. of their liabilities in cash, at Bank of England, at call and at short notice. A like proportion gives 46 crores, or say about 30,000,000*l*, as the size of the reserve against rupee liabilities. Of this 23 per cent., the English banks hold about half in actual cash or at the Bank of England, which is the same thing. This might serve as the basis for estimating what proportion of the reserve should be kept in actual gold. It must not be overlooked that the English banks' figures are "window-dressing" figures, and that the working percentages are probably smaller.

21 With a properly constituted Gold Standard Reserve, held in this country, there should be no need for holding any portion of the metallic reserve of the Paper Currency Department here also. The proper place for this reserve would appear to be India, since it exists to insure the convertibility of the notes, not the maintenance of the exchange value of the rupee.

22 *Use of the Gold Standard Reserve*—Hitherto it has been the practice, when exchange threatened to fall below specie point, to offer fixed amounts of sterling drafts on London upon a given day each week. With a properly constituted reserve in London, it should be possible to sell wire transfers upon any day of the week up to a reasonable limit. Assume a grave financial crisis in London, with the Exchange Banks and merchants anxious to strengthen the resources of their head offices in England. Actual gold could be released in London, to the advantage of all concerned. In the Baring crisis the Bank of England rate was 6 per cent, and it was necessary to go "cap in hand" to a foreign country for gold. At that time the aggregate balances of the Presidency Banks were about 13 crores of rupees, and they were not able to lend much at 3 per cent. At that time, too, a large Calcutta mercantile firm, desirous of strengthening the funds at the disposal of its London house, was unable to remit by wire for that purpose except through a French bank. The English banks refused to sell wire presumably from fear of weakening the resources of their head offices at that critical moment.

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 APPENDIX XX.
 

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## MEMORANDUM OF EVIDENCE SUBMITTED BY SIR ALEXANDER McROBERT

1. Has been in India 29 years—most of the time in Cawnpore, but for the past 23 years also closely connected with an important textile industry in Gurdaspur District, Punjab. Was President of the Upper India Chamber of Commerce for nine years and member of the Legislative Council of the United Provinces for eight years. A woollen manufacturer.

2 *Balances*—It is hardly denied that the cash balances in London have been kept at an unnecessarily high level for the past three years. There would not have been much risk in keeping them down by paying off India bills and by refraining from raising loans until the surplus was absorbed. The other alternative would have been to directly reduce taxation, a course not advisable under the circumstances. Besides, by reducing the debt the sum to be raised by taxation would have been automatically reduced. Since the balances existed it was right to put them out at interest.

The balances in India might be lent to the banks in times of pressure when Government consider it would be safe to do so.

3 *Banking*—Not in favour of the establishment of a Central Bank in India as the functions of such an institution are at present adequately performed by—

- (a) The Government of India and the India Office,
- (b) The Presidency Banks, and
- (c) The Exchange Banks.

4 A State bank implies effective State control, so that by interposing a State bank the Government would not be relieved in actual practice of any of its existing responsibilities in connection with paper currency and exchange. Government could not withdraw from control of the currency.

5 Currency notes have at present the direct, unqualified backing of the Government of India. If issued by a State bank they would not for a long time at any rate inspire the confidence the existing "Sirkar's" issue enjoys, and the volume of the circulation would be checked.

6 Each of the three Presidency Banks has evolved a practice adapted to its own environment, and their absorption by a State bank would in a large measure involve the sacrifice of the advantages to trade which this specialisation secures.

7 The conditions of the money market are not uniform throughout India. The bank rate is rarely the same in Bengal, Bombay and Madras, being influenced by very different considerations in the three presidencies.

8 India is too large an area to be efficiently worked by one central State bank. A central bank would need to be in a central position such as Cawnpore, and that would satisfy neither Calcutta nor Bombay. It is not

conceivable that one central board of directors would be as useful and satisfactory as three separate boards with local knowledge. No one would suggest that the Bank of England should usurp the functions of the Scotch and Irish banks, nor would anyone be found rash enough to claim that the financial control of Spain, Sweden, and Greece should be centred in one bank.

9 I am of opinion that the existing banking facilities are capable of adequate expansion on the present lines. They are gradually becoming more elastic, and the trade of the country is usually financed without difficulty. Although the extension of currency based on credit must be slow I look for a gradual increase in the circulation of cheques.

10 I do not advocate any material change in the conditions now prescribed for the Presidency Banks except that I think they should be permitted to lend on any form of marketable security. If they were given access to London they would merely be competing with the existing exchange banks, institutions that are not open to the charge of being reluctant or hesitating in meeting trade requirements. They, as well as the Presidency Banks, are prosperous concerns that have been tried in adversity and emerged triumphant. A central State bank could not cater for the small man any more than the Presidency Banks do now. The small man must be left to the rapidly growing system of co-operative credit banks. The measure of their success indicates a promising attack on the habit of hoarding.

11 *Capital Expenditure*—I have little criticism to offer on the present methods of meeting capital expenditure. I think in the future it will be found practicable to resort more and more to borrowing in India. I am in favour of sterling loans only as a *dernier resort*. It seems scarcely correct to explain that any capital expenditure has been met out of surplus revenue. As I understand it what has really happened is that a certain amount of floating and non-productive debt has been paid off.

12 *Sale of Council Bills*—Broadly speaking, I favour the existing practice in selling council bills and transfers, because it works so smoothly, and yields the most favourable rate of exchange. I do not see that it would be an advantage to transfer the business of exchange to a State bank.

13 I would suggest that all sales should be put through at 1s 4d, and all accounts kept on the basis of 1s 4d. When sales are made at over 1s 4d the difference to be carried to a special exchange reserve kept in sovereigns and used for making up the difference when sales have to be made at under 1s 4d.

14 *Exchange Value of the Rupee*—The fixing of the rupee at 1s 4d has certainly benefited India for general purposes of trade and has not permanently injured purely internal interests. It has, of course, lowered the rupee price of produce exported, but it has also to the same extent lowered the rupee price of goods imported. I am not in favour of a return to the free coinage of silver.

15 I know of no evidence that conclusively proves that gold is being exclusively hoarded in India unless the annual absorption of gold be regarded as such evidence. I do know that the native in those parts of India with which I am familiar has now taken to gold, and that sovereigns have in some cases replaced rupees in the hoard of the ordinary workman.

16 I am of opinion that the sale of council bills at 1s 4½d must tend to keep gold from circulating in India—as I presume is the object. But gold can only flow to India when there is a large excess of exports over imports.

17 I consider that the sovereign is a suitable gold coin for India generally. A ten rupee gold piece would be of more general use in circulation because wages payments for example so often fall between 10 and 15 rupees, but the country now knows the sovereign, which is an international coin, and a new coin would start with a prejudice against it. Moreover, there would be some inconvenience in having the sovereign and a ten rupee gold coin circulating side by side. In currency matters custom plays a most

important part, and before all things it is desirable to avoid as far as possible the intrusion of novelties.

18 I am inclined to believe that the advantages of opening a mint for the free coinage of sovereigns would justify the cost. There is the question of prestige as well as convenience. I would point out that the Indian mints as now run make a profit of over 100,000*l* annually even when they are slack and coining no new rupees from purchased silver.

19 *Gold Standard Reserve*—I do concur in the belief that a special gold standard reserve is a necessity, and I would not advocate the use of the profits on coinage for ordinary or capital expenditure until the total reserve has been brought to 25,000,000*l* or even 30,000,000*l*. When that point has been reached I would favour the plan of using the interest and further profits in extinguishing (1) floating and (2) unproductive debts. The book value of railways and other productive works should be the actual cost without any deduction.

20 I am of opinion that the gold standard reserve should be held partly in gold and rupees and partly in sterling securities. I would not in advance fix a limit of amount (short of 30,000,000*l*) up to which this reserve should be accumulated. But I would urge that the metallic portion be gradually brought up to at least 10,000,000*l*—approximately half in sovereigns and half in rupees. The rupee portion to be held in India and made available (if circumstances do not forbid), for advances to the banks on appropriate security, when the bank rate goes over 6 per cent. The rate of interest to be charged to the banks I would put at 6 per cent.

21 The whole of the gold and the sterling securities should be held in London—the gold being earmarked at the Bank of England. Until the gold and rupees together amount to 10,000,000*l* I would largely favour short loans on treasury bills, exchequer bonds, and such like, for the difference between 10,000,000*l* and the actual amount of metallic reserve. But I would never hesitate to buy Consols at 73.

22 I thoroughly approve of the system of earmarking gold for the gold standard reserve at the Bank of England. The first object of the reserve is to ensure the stability of exchange, and no considerations of frugality should be allowed to interfere with that object. The earning of interest is a purely secondary consideration, and it must be subordinate to the main object.

23 I would limit the securities in which the reserve is invested to such as have the Imperial guarantee. At any rate I would not go outside the list already adopted.

24 I do not approve the action taken in 1901 when over 1,000,000*l* was taken from the reserve for railway development. I would even ask that the sum be replaced.

25 *Paper Currency Reserve*—The existing practice has shown no points of weakness. The proportion of the note issue covered by securities is not excessive and as the amount of notes in circulation is steadily growing it ought to be practicable to raise the amount invested above the 14 crores now prescribed. The large accumulation of gold in the paper currency reserve need not be condemned since it lessens the burden on the gold standard reserve in supporting exchange. So long as the Government of India undertakes to give 15 rupees for a sovereign a certain accumulation of gold in the reserves cannot be prevented. If they go the next step and accept the responsibility of paying out a sovereign for 15 rupees a gold currency as well as a gold standard will have become effective and still more gold will have to be held in reserve. Concurrently there would be less demand for rupees and the profits on coinage would fall.

26. *Purchase of Silver*.—I believe it would prove economical in the end to make regular purchases of silver, say up to 2,000,000*l* worth a year. Judging by the results of recent years the annual average demand would appear to be about 3,000,000*l*.

## APPENDIX XXI

MEMORANDUM OF EVIDENCE SUBMITTED BY Mr M de P. WEBB, C I E,  
Chairman of the Karachi Chamber of Commerce

The following are the terms of reference —

“ To inquire into the location and management of the general balances of the Government of India, the sale in London of Council Bills and Transfers, the measures taken by the Indian Government and the Secretary of State for India in Council to maintain the exchange value of the rupee in pursuance of or supplementary to the recommendations of the Indian Currency Committee of 1898, more particularly with regard to the location, disposition, and employment of the gold standard and paper currency reserves, and whether the existing practice in these matters is conducive to the interests of India, also to report as to the suitability of the financial organisation and procedure of the India Office, and to make recommendations ”

PART I—“ The location and management of the general balances of  
the Government of India ”

(1) Since 1907 the general cash balances of the Government of India (in India and in London, and excluding the balances of the gold standard and paper currency reserves) have grown as under —

£
15,633,744 on the 31st March, 1907
17,458,679 on the 31st March, 1908
18,219,381 on the 31st March, 1909
25,074,522 on the 31st March, 1910
30,263,912 on the 31st March, 1911
30,669,702 on the 31st March, 1912
27,916,800 on the 31st March, 1913

It will be observed that the cash balance held on 31st March, 1912, was almost double that which was adequate seven years previously

(2) As far as I am aware no British Government in any part of the world finds it necessary to maintain such colossal cash balances as those recently held by the Government of India. In Great Britain, the Chancellor of the Exchequer, with annual liabilities far exceeding those of the Government of India, manages to carry on the financial business of Government with a very much smaller balance of cash in the till than that employed in the case of India

(3) I am convinced that the accumulation of these vast sums of money in the Government treasuries is wholly unnecessary. They mean that India has for some years been unnecessarily heavily taxed, and that the Budget Estimates have not been framed to correct this over-taxation. In support of this view, I would point out that during the last four years Government have collected revenue in excess of their actual expenditure as under —

£
1,500,677 excess in the year ending 31st March, 1910
5,897,489 excess in the year ending 31st March, 1911
4,909,489 excess in the year ending 31st March, 1912
7,500,000 excess in the year ending 31st March, 1913

that is to say, nearly 20,000,000*l* more than was actually necessary, in four years !

(4) This unnecessary withdrawal of nearly 30 crores of rupees in cash from the earnings and savings and available capital of the people cannot have aided or stimulated India's economic development. On the contrary, in a country that is notoriously handicapped for want of ample supplies of cheap capital, and where the rates of interest and discount rise to heights unknown in any other part of the Empire, this vast transfer of cash to the Government Treasuries can only have left the people correspondingly

weakened It has been, in fact, a serious drain on the resources of the country

(5) Assuming, however, that the uncertainty of the rainfall over a large part of the continent of India makes it impossible to estimate revenue and expenditure with any degree of accuracy—a fact that is sometimes lost sight of—and that a cash balance of, say, 5,000,000*l* in excess of what is actually required, has been accidentally and unintentionally accumulated, it is, I submit, one of the first duties of Government—especially in such a case as India—to return this money to the public as expeditiously as possible This can be done in three ways—directly by (a) reducing taxation, and (b) budgetting for large deficits, and indirectly by (c) suspending all borrowing and investing the millions in hand in reproductive works such as railways and canals In the meantime the spare accumulation of cash in the treasuries can be freely placed at the service of the public through the agency of India's leading banks and financiers

(6) Unfortunately, none of these courses has been followed Instead, an irregular and noxious manipulation of the treasury balances has been carried out that has given the main benefits of India's accumulated cash to London bankers and London financiers, rather than to Indian bankers and Indian trade Substantial portions of the Government of India's cash balance have been transferred from India to London, and, there being no legitimate need for the money in London, 15,000,000*l* of it have been lent out in London to private borrowers on terms that, compared to those current and enforced in India, can only be regarded as a sacrifice of India's interests, and grossly unfair to India.

(7) The following figures give an idea of the extent to which Indian money, raised in excess of current requirements in India, has been transferred to, and utilised in, London. The first table shows the cash balances lying in London to the credit of the Government of India on the dates named (N B—These figures are exclusive of the gold standard and paper currency reserves in London, which themselves run up to a total of over 20,000,000*l*)

	£
On 31st March 1908 - - - -	4,607,266
On 31st March 1909 - - - -	7,983,898
On 31st March 1910 - - - -	12,779,094
On 31st March 1911 - - - -	16,693,990
On 31st March 1912 - - - -	18,390,013

The next table gives particulars of the private firms to whom the India Office in 1912 lent some of the Government of India's spare cash—

Sums of over 1,000,000 <i>l</i> lent to private firms —	£
Samuel Montagu & Co - - - -	1,050,000
National Discount Company - - - -	1,100,000
Union Discount Company of London - - - -	1,150,000
Sums of 500,000 <i>l</i> and over lent to private firms —	
Sheppards & Co. - - - -	500,000
Hobler & Co - - - -	500,000
Chartered Bank of India, Australia, and China - - - -	500,000
Brightwen & Co - - - -	500,000
Alexanders & Co - - - -	650,000
Reeves, Whitburn & Co. - - - -	700,000
Wedd, Jefferson & Co - - - -	750,000
Other loans to private firms —	
Allen, Harvey and Ross - - - -	100,000
Anglo-Egyptian Bank - - - -	200,000
Baker, Duncombe & Co - - - -	200,000
Biedermann & Co - - - -	100,000
Blydenstein & Co. - - - -	150,000
Booth and Partridge - - - -	150,000
Bristowe and Head - - - -	200,000
Roger Cunliffe, Sons & Co - - - -	450,000
The Eastern Bank - - - -	100,000
J. Ellis and Sons - - - -	200,000



	£
Gillet Bros & Co - - - -	150,000
Haarbleicher and Schumann - - - -	150,000
King and Foa - - - -	200,000
Laurie, Milbank & Co - - - -	100,000
Lazard Bros & Co - - - -	250,000
Lyon and Tucker - - - -	100,000
Matthey, Harrison & Co - - - -	100,000
Mercantile Bank of India - - - -	250,000
L. Messel & Co - - - -	100,000
National Bank of New Zealand - - - -	150,000
Ryder, Mills & Co - - - -	250,000
Henry Sherwood & Co - - - -	50,000
Smith, St Aubyn & Co - - - -	250,000
Steer, Lawford & Co - - - -	150,000
Tomkinson, Brunton & Co - - - -	150,000

To secure the loan of State money from the India Office, most private borrowers are obliged to lodge first-class securities, such as Indian Railway Stock, Indian Sterling Bills, British Treasury Bills, Bonds and Stocks, and such like. The available supply of these securities, however, being limited, private borrowers were unable to relieve the India Office of all the millions sterling that it had to spare, and in 1909 recourse was had to the seven leading London Bankers, whose names are also on the India Office's list of approved borrowers. The following statement gives the names of those bankers with whom deposits of Indian State money were made in 1912 without security —

	£
London County and Westminster Bank - - - -	1,800,000
Glyn, Mills, Currie & Co - - - -	1,550,000
London Joint Stock Bank - - - -	1,500,000
National Provincial Bank of England - - - -	1,300,000
Union of London and Smith's Bank - - - -	1,250,000

The rates of interest secured for the loan of, in all, over 15 millions sterling (15,000,000*l.*) of Indian State money have often been only 2½ to 2 per cent and even less, barely one-half of the rate of interest which many of the securities lodged at the India Office against the loans of public money, were yielding.

(8) It has been explained, on behalf of the India Office, that the loans are usually made for periods of three to five or six weeks only, and that the apparently low rates of interest earned are, in fact, the rates of interest current in London for short period loans. In reply, it is necessary to point out that to onlookers in India it is by no means clear why, with a floating cash balance of at least 10,000,000*l.* in excess of what was likely to be required, the India Office continued for years to lend out this spare cash for such short periods as three to five or six weeks. The following table gives the total cash transactions (new loans and repayments, figures approximate) since 1908 of 10 only of the principal private borrowers —

	per annum since 1908
Alexanders & Co borrowed and repaid about 1,000,000 <i>l.</i>	
Brightwen & Co " " "	1,300,000 <i>l.</i> "
Bristowe and Head " " "	900,000 <i>l.</i> "
Cunliffe, R., Sons & Co " " "	1,000,000 <i>l.</i> "
Hobler & Co " " "	1,200,000 <i>l.</i> "
Hopkins and Giles " " "	1,300,000 <i>l.</i> "
Reeves, Whitburn & Co " " "	1,400,000 <i>l.</i> "
Samuel Montagu & Co " " "	2,000,000 <i>l.</i> "
Sheppards & Co " " "	1,000,000 <i>l.</i> "
Wedd, Jefferson & Co " " "	1,500,000 <i>l.</i> "

The above borrowers appear to have been the recipients of what amounts practically to standing loans, totalling in all several millions sterling, for a period of over five years. If this money has been lent out in short period loans of three to six weeks, and the loans regularly and continuously renewed—as appears to have been the case—then the practical upshot has simply been to give to the borrowers what amounts to permanent loans at rates

ordinarily payable for short-term loans. Borrowers have apparently pocketed the difference between the rates yielded by the securities lodged by them and the rates at which they could obtain loans of public money from the India Office. In the meantime the Indian taxpayer has lost the benefits that were clearly his due.

(9) Concurrently with the holding of a cash balance many millions sterling in excess of legitimate requirements, and the regular disposal of most of this balance by short period loans that, by constant renewals, became to all intents and purposes permanent loans on the easiest imaginable terms for the borrowers, the India Office has not only omitted to pay off as much floating debt as it could, but it has in effect borrowed back some of the money which it has been lending out so freely. Thus, with the huge cash balances in hand quoted below, and large sums of money (portions of these same balances) lent out on short-term loan rates to private firms in London, the India Office has apparently borrowed temporarily the following sums in the London money market —

CASH BALANCE IN HAND		YET BORROWED AS UNDER	
	£		£
1910		April	- 1,000,000
1st April	- 12,779,094	June	- 2,500,000
		December	- 1,500,000
1911		April	- 1,000,000
1st April	- 16,696,990	June	- 2,000,000
		December	- 1,500,000
1912		April	-
1st April	- 18,390,013	June	-
		December	-

So fixed have the India Office habits of lending and borrowing now become that the Financial Department of the Office appears to lend out money and borrow back money almost simultaneously!

(10) With such colossal sums of the India taxpayers' money lying uselessly in London and only earning comparatively trifling rates of interest, it might be thought that substantial portions of this money could have been applied to the construction of reproductive capital works in India, thus avoiding the necessity of paying further sterling interest charges, as recommended by the India Currency Committee of 1898. Yet this policy does not appear to have been actively developed. On the contrary, the same old customary sterling borrowing for capital works has been indulged in, as though the huge cash balances in London did not exist. Last year, notwithstanding the vast sums of public money at the India Office's disposal, and in spite of the fact that the London money market was faced with more demands for capital than it was able conveniently to meet, an effort was made to borrow 3,000,000*l.* in London on behalf of the Government of India. The money, it is true, was produced—by the underwriters—and at a great expense to the Indian taxpayer. It would be interesting to know if any of this last India Stock was at once lodged at the India Office as security against short periods loans of Indian money. The point is an interesting one, as the public in India have noticed that a portion of the security lodged last year against the 1,050,000*l.* borrowed by Messrs Samuel Montagu and Co consisted of India Sterling Bills.

(11) I am strongly of opinion that where the proceeds of taxation in India yield more than the estimated requirements of the year, the surplus should be utilised in India for the benefit of India, and not transmitted to London, there to be lent out on easy terms to cosmopolitan private borrowers, who have little or no direct interest in matters Indian.

(12) Remembering that the Indian paper currency and paper currency reserve are under State control, and therefore easily available to Government in times of grave national emergency, I am of opinion that the Government of India's floating cash balance ought, in the interests of economy, to be kept down to a maximum of 10,000,000*l.* of which 3,000,000*l.* might be kept in the Treasury in London, leaving the balance of 7,000,000*l.* (i.e., ten and a

half crores of rupees) to be held in the Treasuries and Presidency Banks in India.

(13) As far as I am able to see, 3,000,000*l* should be ample for the India Office's requirements in London. Should, however, the funds in London unexpectedly run low, then it would be far more economical for the Secretary of State to borrow a little, temporarily, rather than overtax India, and place the proceeds at the India Office's disposal in case of emergencies.\*

(14) With regard to the ten and a half crores cash balance in India, as much of this as possible should be placed at the service of the Indian money market, just as is done by Government in England. The balances kept with the Presidency Banks (which balances were originally in the nature of compensation to the banks for the loss of their note circulation after the introduction by Government of a State paper currency), should be considerably increased. With the abolition of the gigantic banking business in London, which has by degrees converted the India Office into one of the chief money-lending concerns in the world, the problem of easing the Indian money market by short loans to approved borrowers in India, might be considered. It is common knowledge that the withdrawal and retention in the Government treasuries of vast sums of cash arising out of the customary collection of the Indian revenues, contributes materially to that severe seasonal tightness of the Indian money market which so handicaps Indian merchants in their ordinary business dealings. Indeed, Indian sellers are sometimes forced to part with their produce owing to their inability to pay the very heavy rates of interest current in the cold weather. It should be Government's business to manage its general balances so as to avoid as far as possible consequences of this kind.

(15) To summarise, I am of opinion (a) that the cash balances recently held by the Government of India have been far too large, (b) that the location of 12,000,000*l* to 15,000,000*l* of the general balance in London since 1911 has been altogether unnecessary, and has involved a serious drain on India, and (c) that the management of the balances by the India Office has been wasteful and unbusinesslike in the extreme, with the result that India has lost heavily. The remedies that I would now propose are —

- (a) That the maximum cash balance of the Government of India should henceforth be restricted to 10,000,000*l*
- (b) That not more than 3,000,000*l* of this balance should be held in London by the India Office, and
- (c) That all Treasury balances in India that can be spared should be placed at the service of the public through the agency of the Indian money market

#### PART II — "The sale in London of Council Bills and "Transfers"

(1) With the closing of the Indian mints to the free coinage of silver in 1893, the necessity for selling rupees by auction largely disappeared. The old procedure was, however, maintained, and weekly auctions in London of Council Drafts on India were held as before. In 1899 the Indian Currency Committee having recommended a *pukka* gold standard for India with a gold currency (sovereigns to be legal tender for Rs 15), and open mints for the free coinage of gold, and the Secretary of State and the Government of India having both accepted these recommendations as being the best possible development of the Indian currency system, the old practice of auctioning weekly the rupees accumulated in the Indian treasuries became entirely obsolete. But the India Office still carried on the system, and the weekly sales of Council Drafts continue till this day. Moreover, in recent years the auctions have been conducted with such an entire disregard of everything that has gone before that they have become one of the main obstacles in the way of the successful carrying out of some of the most important recommendations of the Indian Currency Committee. Indeed, so erratic and unintelligible have the proceedings now become that many of the public in

\* "The expense (of borrowing in London) even if the Secretary of State had to pay a rate of interest appropriate to Turkey or China, would be much less than the expense of maintaining a very great reserve against unlikely emergency." *Vide Professor J. M. Keynes' "Indian Currency and Finance,"* page 156

India have been forced to the conclusion that the India Office's chief concern in conducting the weekly auctions of Council Drafts is to manage the sales in such a way as (a) to remove as much Indian State money as possible from India to London for the use of the London money market, and, at the same time, (b) to delay for as long a period as possible the establishment of the gold currency in India recommended by the Indian Currency Committee of 1898. The business of providing the Secretary of State with the means of meeting the home charges on the best possible terms for India seems to have been relegated to quite a secondary position.

(2) And yet the first and only object of the weekly sales of Council Drafts was, and should remain, the provision in London out of the revenues collected in India of the sums necessary to enable the Secretary of State to meet India's home charges on the best possible terms for India. With the Indian mints open to the free coinage of silver, and the sterling value of the rupee depending entirely on the sterling price of silver in London and New York, no better means of paying India's sterling debts could possibly have been devised than weekly auctions in London of a portion of the stocks of rupees accumulated in the treasuries in India in the course of the collection of the revenues by Government. The competition of the public at these weekly auctions enabled Government to secure the best possible sterling prices for such rupees as were auctioned, and the system was therefore admirable in every way.

(3) With the closing of the Indian mints to the public in 1893, the position completely changed. The public were no longer able to obtain supplies of rupees in India in exchange for silver. The only source of supply was the Government treasuries. The Secretary of State was in the position of monopolist with an article for sale for which there was a large demand. He could ask and obtain any price in reason that he pleased for his wares. Buyers were plentiful, sellers there were none, except himself. Who in such circumstances would dream of putting his goods up for auction, except with the object of securing his own price with the least possible delay? The Secretary of State's price was 1s 4d, and, with a little firmness and courage, he could easily have obtained 1s 4d. Yet he sacrificed his business reputation (and also India's interest) by accepting for years almost any price that the public cared to offer him. Not until the public themselves voluntarily increased the prices that they offered, did the India Office secure the 1s 4d that they wanted from the first. From 1893 to 1898 was a period of continuously bad management so far as the sales of Council Drafts were concerned—"a long series of economic errors," to use the words of Professor Dunning MacLeod.

(4) The Indian Currency Committee of 1898 accepted Professor Dunning MacLeod's advice for the improvement of India's currency system almost in its entirety, and their recommendations for the re-establishment of a gold currency in India with open free mints for the coinage of gold were, as far as they went, exactly as suggested by the learned professor—the sovereign to be unlimited legal tender at the rate of one sovereign for fifteen rupees, the Indian mints to be made branches of the Royal Mint in London, as the Australian mints are, for the free coinage of gold (sovereigns and half-sovereigns, Professor MacLeod suggested), and the silver token coinage to be increased or restricted only as might be found necessary in the people's interests. Professor MacLeod considered a gold standard without a gold currency unthinkable, and he made various suggestions to encourage the inflow and use of gold as currency in India. The Indian Currency Committee also looked forward to a gold currency as an essential part of the scheme for improving India's monetary system. Government accepted the Indian Currency Committee's recommendations, and the Government of India at once attempted to carry them out.

(5) In face of the above facts, the principles that ought to have guided the Secretary of State in Council with regard to the sales of Council Drafts are perfectly clear. After Government's acceptance of the Indian Currency Committee's Report—

- 1 (a) No Council Drafts should have been sold at less than 1s 4½d per rupee, it being the India Office's clear duty to obtain the best possible price for all the rupees sold.

- (b) As soon as a sum equivalent to the total of the home charges had been realised, not another rupee should have been put up for auction until the proportion of sovereigns in the Indian currency had exceeded public requirements, and there was a demand for more token currency
- (c) When it became necessary to provide money in London for the purchase of silver for the manufacture of token currency, further sales of Council Drafts should have been made for this special purpose, but not at a lower rate than specie point for gold imports—then about 1s 4 5-32d
- (d) With the exception of sales of Council Drafts to provide the means in London wherewith to pay (1) the home charges and (2) the cost of silver for token coinage, not a rupee should have been put up for auction in London

The observance of these principles is essential, I submit, if Government's acceptance of the Indian Currency Committee's Report of 1899 is to be loyally acted upon and carried out by all Government Departments. As a matter of fact, the India Office has not acted upon a single one of these principles. On the contrary, in its sales of Council Drafts since 1899 the India Office has violated every one of them in that it has—

- 11 (a) Sold Council Drafts at less than 1s 4½d (sometimes at less even than 1s 4d), thus gratuitously accepting lower prices than it need have done for its drafts, and to this extent needlessly sacrificing India's interests
- (b) Accumulated huge sums of Indian State money in London greatly in excess of the home charges. There being no legitimate need whatever in London for this money, India has been wrongly deprived of substantial portions of its balances and reserves, to the loss and danger of Indian interests
- (c) Sold Council Drafts for the provision of money for the purchase of silver in London for token coinage at rates below gold import point, thus depriving the gold standard reserve of its full share of profit on the coinage of new rupees
- (d) Checked the flow of gold to India and actively encouraged the increased use of the depreciating silver token currency by selling Council Drafts at rates well below gold import point\*

The sales of Council Drafts by the India Office since 1899 have thus been most unbusiness-like and unsatisfactory, from the point of view of Indian interests

(6) In the course of his evidence before the Indian Currency Committee of 1898, and in answer to an inquiry as to the length of time that might be requested for the establishment of a gold monetary standard with a gold currency in India, Professor Dunning MacLeod replied that "if Government are really in earnest and put their hearts into it, and especially get the banks to assist them, I do not see why it should not all be done in two years." Over 14 years have passed since that opinion was given, and yet India is only now using sovereigns freely as currency. One of the chief causes of the delay has been the active obstruction of the Finance Department of the India Office in its grossly excessive sales of Council Drafts at rates that have directly encouraged the further use of silver tokens and so checked the inflow and use of sovereigns as currency.

(7) I am strongly of opinion that these abuses of the Council Draft system should be terminated forthwith. The sales of Council Drafts should be strictly limited to the sum required to meet the home charges, and no allotments should in any circumstances be made below, say, 1s 4½d to 1s 4 3-32d—i.e., about the present equivalent of specie point for gold imports into India. The sum required in London for the home charges having been realised, no further sales of Council Drafts should be made except for the express purpose—duly notified to the public—of purchasing metal for the manufacture of further token coinage. Such special sales of

\* "This was done on a large scale in 1905-6 and 1906-7" . *Vide* Professor Keynes' "Indian Currency and Finance," page 116

Council Drafts should not be made at anything below specie point for gold imports. Only by thus regulating the sales of Council Drafts can the India Office's noxious interference with (1) the foreign exchanges, (2) imports of gold, (3) local discounts, and (4) general price levels be checked.

(8) Further, I am of opinion that when selling Council Drafts on India for the home charges and for the purchase of the metal required for supplementing the token coinage, the practice of confining such drafts to the treasuries at Calcutta, Bombay, and Madras needs extension. The time has now come for increasing the facilities enjoyed by the public in this connection, and I would urge that Council Drafts on the treasuries at Delhi and Karachi be made available henceforth. A system that has remained unchanged for over half-a-century may now well undergo revision and extension.

PART III —“The measures taken by the Indian Government and the Secretary of State for India in Council to maintain the exchange value of the rupee in pursuance of or supplementary to the recommendations of the Indian Currency Committee of 1898 ”

(1) The most important, because vital, portion of the Indian Currency Committee's recommendations is contained, in my opinion, in section 54 of the Report. “We consider that the Indian mints should be thrown open to the unrestricted coinage of gold on terms and conditions such as govern the three Australian branches of the Royal Mint. The result would be that under identical conditions the sovereign would be coined, and would circulate both at Home and India.”

(2) The India Office and the Government of India at once endeavoured to give effect to this recommendation, but the Deputy Master of the Mint in London, by a report that was in one respect historically imperfect, and in another economically unsound, appears to have misled both the Treasury and the India Office, with the result that the Government of India after two years of correspondence with the Home authorities (during which every departmental detail asked for by the London Mint Master was conceded), at length—25th December 1902—decided to postpone the scheme until a more favourable opportunity should arise. The consequences of that unfortunate step have been the complete subjection of India's currency and finances to official “management” from London, and the chaotic condition of affairs that has led to the present investigation.

(3) Last year the Government of India again represented to the Secretary of State the paramount necessity of re-opening India's Mint to the public. The free coinage of gold in India was again urged, but owing, apparently, to some difference of opinion between the Government of India and the India Office regarding the value of the gold coin to be struck and the authority under whose instructions the new Indian Gold Mint should work, the matter is again in abeyance, and India still continues to lack the central feature of a modern currency system, namely, an open, free, gold mint.

(4) I am strongly of opinion that the Bombay Mint should be opened forthwith to the free coinage of gold, as specifically recommended by the Indian Currency Committee 14 years ago. Further, in view of the facts that sovereigns already—

- (a) are legal tender in India,
- (b) are being regularly imported into India,
- (c) are now in circulation to the extent of over 40,000,000*l.* in India, and
- (d) are daily growing in popularity in India.

I am of opinion that the sovereign is the best gold coin for use as currency in India. If, however, the departmental difficulties of coining sovereigns in Bombay be absolutely insuperable by Government, then an Indian sovereign of exactly the same size, weight, and fineness as the British sovereign is, in my opinion, far preferable to a new Indian gold coin of the value of 10 rupees.

(5) The recommendations of the Indian Currency Committee, which I consider next in importance, are contained in sections 54, 59, and 60 of the Report. Section 54 recommends that the British sovereign be made legal tender and current coin in India. Section 60 recommends that "Fresh rupees should not be coined until the proportion of gold in the currency is found to exceed the requirements of the public", whilst section 59 suggests that "When Government has accumulated a sufficient gold reserve, and so long as gold is available in its Treasury, it might discharge its obligations in gold instead of rupees". These recommendations clearly lay down an active policy for Government with the object of promoting the use of gold as currency, and, if carried out, would go far to place India's token currency on the most satisfactory and stable basis.

(6) The recommendation to make the British sovereign a legal tender in India was at once carried out, but the other recommendations, where not wholly ignored, have been but indifferently observed. The action of the India Office in selling rupees at prices below the equivalent of gold import point, for example, was, as I have already pointed out, a direct incentive to India to use silver token currency in preference to British sovereigns. Nor was this active opposition to the establishment of a gold currency in India counteracted in any way by the Government of India. In reply to an inquiry in May 1912, by the Karachi Chamber of Commerce as to what steps were being taken by Government to give effect to the recommendations of the Indian Currency Committee for popularising sovereigns in India, the Government of India replied (17th June 1912) that "the policy of Government has been, and is, while refraining from taking any steps to force gold on the people, to discharge their obligations in sovereigns wherever payees so desire".

In other words, the policy of Government has been, in effect, to ignore the recommendation of the Indian Currency Committee to "discharge its obligations in gold," and to do nothing in this direction unless the Indian public demanded sovereigns. This "wait-and-see" attitude has, in my opinion, greatly delayed the carrying out of the recommendations of the Indian Currency Committee, and is much to be deplored.

(7) I am of opinion that the period of inactivity in these matters should now be brought to a close, and that the Indian Currency Committee's Report having been accepted by Government, the recommendations contained in that Report should now be acted upon without further delay. The attitude of the Government of India in this connection, namely, to carry out the recommendations if the Indian public so desire, seems to me weak and unbusinesslike. I therefore urge—

- (a) That the Bombay Mint be opened at once to the free coinage of sovereigns, the Mint being equipped with an up-to-date refinery capable of dealing promptly and efficiently with the products of the Indian gold mines,
- (b) That the Government of India now discharge its obligations in sovereigns as far as possible,
- (c) That no more token coinage, except for replenishing wear and tear and loss by export, be manufactured unless and until it be proved that the proportion of gold in the currency exceeds the requirements of the public (And, in this connection, the statistics of bygone years and conditions are not, of course, safe guides.)

(8) If Government "put their hearts" into this business, to use Professor MacLeod's expression, India will very soon have a gold currency in active circulation—at the banks and in the Government Treasuries—somewhere approaching 100,000,000. With such a currency in use, the exchange value of the rupee will be as permanently secured as the exchange value of the English shilling, or the French five-franc piece, or the silver dollar of the United States of America. And that, too, without the necessity of maintaining any gold standard reserve, or other wasteful, and, possibly delusive substitute of that kind.

(9) In this connection it is desirable to recall the words of the late Sir Samuel Montagu in 1899, When giving evidence before the Indian

Currency Committee, he drew the Committee's attention to the fact that the world's production of gold was then "unequalled." Whilst strongly advocating a gold currency for India, he added "You would do a service, I think, to Europe if you were gradually to utilise this extraordinary surplus of gold." Asked, if he thought that the establishment of a gold standard and currency would have an "appreciably injurious effect on the gold market of the world," Sir Samuel Montagu replied, "I think not." Since this opinion was given, the world's output of gold has almost doubled, and is now on the verge of 100,000,000*l* per annum. Notwithstanding the enormous sums of gold withdrawn from the world's use by the United States of America, by the great military Powers of the Continent of Europe, and by the growing South American Republics, the value of gold is everywhere diminishing—prices are universally rising. There is ample gold, therefore, to satisfy the world's requirements, including the requirements of India. Moreover, the utilisation of some of this gold by India, would tend to arrest the present unhealthy rise in prices, which is by no means wholly advantageous to a creditor nation consisting largely of small, fixed-wage earners—such as Great Britain.

PART IV—"The location, disposition, and employment of the Gold Standard Reserve"

(1) The recommendations of the Indian Currency Committee with regard to the formation of a gold reserve are given in Sections 59 and 60 of their Report, and are quite clear and explicit. "We recommend that any profit on the coinage of rupees should not be credited to revenue, or held as a portion of the ordinary balance of the Government of India, but should be kept in gold as a special reserve, entirely apart from the paper currency reserve and ordinary Treasury Balances (Section 60). We regard it as the principal use of a gold reserve that it should be freely available for foreign remittances whenever the exchange falls below specie point, and the Government of India should make its gold available for this purpose when necessary, under such conditions as the circumstances of the time may render desirable" (Section 59).

(2) The above recommendations are, in my opinion, thoroughly sound and complete, and, had they been acted upon without modification after modification, would have provided that security for the sterling exchange value of the rupee, which is at present lacking in one most important respect so far as the gold standard reserve is concerned.

(3) The most serious and objectionable departures that have been made from the Indian Currency Committee's recommendations are as under—

- (a) Instead of all the profits on the coinage of new rupees being kept in the gold reserve, over a million sterling of these profits has been diverted elsewhere.
- (b) Instead of such profits as have been credited to the gold reserve being held in gold, they have been—
  - (1) invested in sterling securities,
  - (2) converted into and held in silver,
  - (3) lent out to private borrowers in London.
 Out of 22,657,776*l*, only 1,730,000*l* was held in gold on the 30th April, 1913.
- (c) Instead of the gold reserve being kept entirely apart from the paper currency reserve and the ordinary Treasury Balances, the three are constantly being intermingled at the option of the India Office, so that nobody knows from month to month the exact nature of the reserves. Most of the metallic currency in the paper currency reserve at present consists of gold (the paper currency being redeemable in silver), while most of the metallic currency in the gold standard reserve is at present composed of silver (the object of the reserve being to supply the public with gold). Currency management of this kind has been described as, and, in truth, is "sheer muddling."

In addition to these specific departures from the recommendations of the Indian Currency Committee, the India Office has repeatedly failed to secure



all the profit it should have done for the gold standard reserve in that it has replenished the token coinage by sales of rupees at absurdly low rates, *i.e.*, at rates well below specie point for gold imports. This matter has been referred to before in paragraph 5, Part II of this Note. It is now only necessary to repeat that by these sales an altogether unnecessary loss has been incurred at the expense of the gold standard reserve.

(4) Various explanations have been given from time to time for this wholesale ignoring of the Indian Currency Committee's recommendations and of the protests of the Chambers of Commerce and of the Press in India. I have carefully considered these explanations—excuses I should prefer to call them—from time to time, and I have no hesitation in describing them all as unsound and unacceptable. Moreover, the constant chopping and changing of the composition of the gold standard reserve has not only deprived the public of confidence in the administration of this reserve, but it has, in my opinion, exposed India to grave danger.

(5) In connection with the general policy of holding the bulk of the gold standard reserve in London, I submit that Government have gone entirely beyond their province in undertaking to provide not only gold for export, but gold ready delivered at a financial centre on the other side of the globe. The business of Government, so far as the maintenance of the sterling value of the rupee is concerned, is to provide gold in India for export, if required, and not to endeavour to anticipate the requirements of the public by laying down 20,000,000*l.* of India's money in London (or elsewhere) in advance. No doubt London is in all probability the centre where the gold, in an economic, financial, or political crisis involving a change in the balance of trade against India, would be required. But Government's duty ends when it provides that gold in India. To deposit the bulk of the gold in a centre where the banking community are already, on their own initiative, considering how they can strengthen their own admittedly slender and inadequate gold reserves, is to expose India to risks and dangers from which she had every right to expect complete protection.

(6) I am strongly of opinion that India's gold standard reserve should be restored to its original name, composition, and location. Let it be called the gold reserve, and let it be in the main, at any rate, what its name implies, a reserve of gold. (No other nation in the world, that I am aware of, holds its gold reserves in securities, silver, and short loans to private borrowers outside its own country.) For these reasons I urge that the bulk of the securities, in which nearly 17 millions sterling of the gold reserve is at present invested, be realised (by degrees, so that severe loss may be avoided), and the proceeds gradually remitted to India, for retention in the Indian Treasuries, in gold. That monstrosity, the "silver branch" of the gold reserve should be at once abolished, and the 4 crores 83 lakhs of rupees at present held therein be transferred to the paper currency reserve in exchange for the equivalent in sovereigns. If 7,000,000*l.* be left in London invested in securities it will probably be as much as could be liquidated in a hurry (without heavy loss and inconvenience to the London money market), to meet a sudden demand for drafts on the India Office arising out of a failure of the monsoon rains and a consequent change in the balance of trade. Were 7,000,000*l.* insufficient, then gold could be shipped from India to London, and London would no doubt be very relieved to see the metal coming. This sum of 7,000,000*l.* invested in London in securities should be an absolute maximum, and there would be no spare gold reserve cash, therefore, in London to be lent out (as at present) to private borrowers.

(7) My reasons for advocating that the bulk of the gold reserve be held in gold, in India, are these. Great Britain's gold reserves have been for some years notoriously slender almost to the verge of danger. Practically every man of business, banker, Chamber of Commerce, journalist, economist, politician, and statesman of knowledge and repute has been long agreed on this point. In these circumstances the placing of 15 to 20,000,000*l.* of India's gold reserve in London is a gratuitous "tempting of Providence." Quite apart from the inconvenience that would be caused to London by a sudden withdrawal of this 15 to 20,000,000*l.* owing to economic or political complications in India, there are two sets of complications conceivable in

England that would make it an impossibility for India to withdraw her gold reserve from London, no matter how badly India might require it, and those are (1) a panic in England arising out of an economic crisis, and (2) a financial crisis arising out of Great Britain being involved in war with a first-class power. In either of these circumstances the sale of India's 17,000,000*l* worth of gold standard securities would be an impossibility. Even were the whole sum earmarked in gold at the Bank of England, there is no doubt that at a moment of grave national danger, Government would at once appropriate India's gold in London, and India would be left in the lurch for the time being. Were the sterling value of the rupee to collapse at such a moment, the difficulties of an already critical situation would be greatly accentuated.

(8) Which being so, I urge that it is far better, both in India and England's interest, to retain the bulk of the gold standard reserve in gold in India. The existence of a 20,000,000*l* reserve of gold in India (in addition to the 7,000,000*l* in securities at home), would not only guarantee the exchange value of the rupee, but it would, in time of grave national peril, be a source of strength to the whole Empire.

(9) In concluding this plea for the immediate observance of the recommendations of the Indian Currency Committee in connection with the gold standard reserve, I desire to draw attention to the India Office's Explanatory Memorandum of the East India Accounts and Estimates, 1911-12, issued for the information of Parliament in July 1911, wherein the following statement appears (on page 9) —

“Gold Standard Reserve —In accordance with a recommendation made by the Indian Currency Committee of 1898-99, it was decided that, with effect from April 1st, 1900, the reserve should be held mainly in sterling securities.”

No such recommendation was ever made by the Indian Currency Committee. On the contrary, the Indian Currency Committee recommended that the reserve should be held in “in gold.” This misrepresentation of fact (which makes it appear that the India Office has been acting in accordance with authority instead of in opposition to authority), should, I think, be specifically corrected in the next Explanatory Memorandum of the East India Accounts prepared for the information of Parliament.

#### PART V —“The Paper Currency Reserve”

(1) In one respect India's currency system is in advance of that of the United Kingdom in so far as it includes a State paper currency, very well managed by the Comptroller General and Head Commissioner of Paper Currency, Calcutta. Nearly 10,000,000*l* of this paper currency is supported by interest-bearing securities, the earnings from which flow into the State coffers—a marked improvement on the private bank note system of Great Britain. The total amount of Indian currency notes in circulation is now nearly 70 crores of rupees (*i.e.*, nearly 44,000,000*l*). There is no limit to the amount of issue, but the law provides that the total issue must be supported by a reserve consisting of metal and securities. The maximum limit for the securities stands for the present at 14 crores (9,333,333*l*). The paper currency is issued in the form of promises to pay bearer on demand so many rupees. These paper promises or currency notes are legal tender in India, and are very popular in the larger cities and towns, and among all the best informed classes of the community.

(2) Although the Indian paper currency is purely an Indian concern, and is only issuable and encashable in India, a practice has been initiated in recent years of holding a part of the reserve against the Indian note issue in London. Such a practice—the practice of holding a country's paper currency reserve in some other country on the other side of the world—is, I believe, unprecedented in the history of any nation. Nor have any of the reasons advanced on behalf of Government in the case of the Indian paper currency reserve convinced me that the holding of 7/10,000,000*l* of the reserve in London, instead of in India, is other than a wasteful and thoroughly bad policy from the point of view of India.

(3) The principal official arguments used in favour of holding a large proportion of the Indian paper currency reserve in London rather than India have been as under —

- (a) So long as gold is not in active circulation in India, what the presenter of currency notes in India requires is not sovereigns, but rupees. By keeping gold ready in London (over 6,000,000*l* is "ready" at present at the Bank of England) the India Office can quickly buy silver to coin into rupees to be handed to the presenter of currency notes in India (*Vide* the late Sir Edward Baker's speech on the Budget of 1906)
- (b) The India Office can easily appropriate and interchange the money with the general Treasury balances and with the gold standard reserve as may be found convenient from time to time (Sir Edward Baker)
- (c) Investments in sterling securities in London are better for India than investment in Government of India rupee paper, because such securities are not necessarily influenced by the causes which might shake public confidence in the Indian paper currency (*Vide* Mr Baker's reply to Mr Gwynne in the House of Commons in December 1912)
- (d) The money "would be readily available to support exchange in case of a diminished demand for rupee currency" (*Vide* Mr Montagu's reply to Mr. Touche in the House of Commons in August 1912)
- (e) The money (i.e., 6,000,000*l* to 7,000,000*l*) "is not required in India for the payment of notes, since a sufficient metallic reserve is held in India for that purpose" (*Vide* Mr Montagu's reply to Mr Touche in the House of Commons in August 1912)

(4) These arguments have only to be stated in juxtaposition to each other to stand self condemned. Apart from the fact that they are in a large measure mutually destructive, no one of them will bear examination. Thus, the idea of holding permanently 6,000,000*l* to 10,000,000*l*. in London in case the India Office might at any moment suddenly and unexpectedly want to enlarge the Indian token currency by this amount, is preposterous. The silver coinage ought to be replenished regularly and continuously in small sums (so as not to inflate unduly the token currency or force up the silver market against Government), and the money for this purpose ought to be specially provided in London through special sales of Council Drafts. As a matter of fact, the paper currency reserve lying in London was not utilised for the recent large purchases of silver, although there was nearly 7,000,000*l* lying in London for this special purpose (according to Sir Edward Baker's ideas). These recent silver purchases were financed through the agency of Council Drafts wastefully sold at below specie (gold import) point.

(5) The facility-for-chopping-and-changing argument is perhaps the worst that could be employed in connection with a paper currency reserve. The Indian paper currency reserve has been created for a special object, namely, to encash the Indian paper currency in India, and nothing is more likely to shake confidence in this currency than the knowledge that the specie necessary for its encashment is liable to be removed to the other side of the world and invested in securities that, in an economic crisis or great war in Europe, might prove absolutely unsaleable.

(6) In this connection, I venture to submit that the investment of any of the Indian paper currency reserve in British securities in London is a mistake involving loss and possible danger to India. The Indian paper currency is, as I have said before, purely a local concern, the benefits of which should be confined entirely to India and not shared with London financiers anxious to unload depreciating sterling securities. (I do not mean to imply that this was the Government of India's intention when investing in London, but this is the practical effect of their so doing.) As far as I can make out, India stands to lose about a quarter of a million sterling through a portion of its paper currency reserve being invested in London in sterling securities, and this loss is, in my opinion, likely to increase. Investment of the Indian

APPENDIX XXI.

paper currency reserve up to the statutory limit should, I urge, be made in Indian securities. In this connection the list of securities acceptable for the paper currency reserve might very well be enlarged.

(7) The argument employed by the Under Secretary of State for India that if the gold standard reserve proved inadequate for satisfying an adverse balance of trade, the portion of the Indian paper currency that is held in London might be appropriated to support exchange, is particularly vicious in that, not only is it radically unsound, but it casts a suspicion on the efficacy of the gold standard reserve. Apart from the extreme improbability of the gold standard reserve breaking down (except in consequence of the inability of the India Office to realise its 16,000,000*l* worth of securities in a time of crisis), the fact that a portion of the paper currency reserve was held in London instead of India would have no bearing on the situation at all. And for this reason. If the paper currency reserve consisted very largely of sovereigns, the sovereigns would be just as effective in supporting exchange in a grave emergency whether they were made available from the Treasuries in India or from the vaults of the Bank of England. Indeed, did the crisis happen to be a Western crisis rather than an Indian crisis, the gold would be far more valuable to India (and possibly to Great Britain), were it held in India rather than in the United Kingdom. The argument is, therefore, both worthless and misleading.

(8) Nor can any weight be attached to Mr. Montagu's other argument, or, rather, *ipse dixit*, that a sufficient metallic reserve is already maintained in India against the paper currency in circulation, and that 7,000,000*l*. or so of the reserve can therefore be removed with safety from India to London. The removal of this substantial portion of the reserve from India merely on the arbitrary decision of the India Office that the money is not wanted in India, will not satisfy Indian critics. Not until the matter has been thoroughly weighed by all the leading banking and commercial interests in India can it be agreed that the proportion of the metallic reserve to the total issue is unnecessarily high, and that a sum of 7,000,000*l* may be invested. Even if this turn out to be the case the investment should, in India's interests, be made in India and not in London.

(9) I am strongly of opinion that as the paper currency is only issuable, legal tender, and encashable in India, the whole of the paper currency reserve should be held in India. The administration of the paper currency and the reserve there-against should be left entirely in the hands of the Government of India, because it is purely a local development in which London financial interests have no legitimate concern. I think that the Paper Currency Act should be so amended as to—

- (a) confine the holding of the reserve to the Government Treasuries in India,
- (b) restrict the investment of the reserve to Indian securities, not necessarily Government paper only, and
- (c) permit the investment of a certain portion of the reserve (or of the gold standard reserve) temporarily—during the busy season in India—to relieve the seasonal pressure in the Indian money market.

PART VI—"Whether the existing practice in these matters is conducive to the interests of India"

(1) It is everywhere recognised that for the speedy economic development of India one thing in particular is everywhere needed—abundant supplies of cheap capital. This want can be supplied in part from within, and very largely from abroad. The Indian Currency Committee in recommending open gold mints and a gold currency and standard for India (Section 54), freely recognised that . . . "with the growth of confidence in a stable exchange, capital will be encouraged to flow freely into India for the further development of her great natural resources" . . . (*vide*

Section 70) The India Office in recent years by its lax management and perverse policy of—

- (a) encouraging the further use of rupees,
- (b) checking the inflow of gold into India,
- (c) weakening the gold standard reserve,

has hindered the establishment of a gold currency in India, and delayed the growth of confidence, with the result that the inflow of large supplies of cheap capital from outside has been very slow in coming

(2) By withdrawing substantial portions of India's Treasury balances and gold standard and paper currency reserves, the India Office has further destroyed public confidence in the official management of India's currency and finances. These withdrawals have amounted to the huge total of 40,000,000*l*. Of this immense sum, nearly one-half might have been employed in India to the great advantage of the country. Thus, if the 3,000,000*l*. of the paper currency reserve, and the 17,000,000*l*. of the Treasury balances which were invested and lent out in London had been invested and lent out in India, as they might very well have been, then Indian interests would have benefited materially.

(3) By disposing of Council Drafts in unlimited quantities at rates well below specie (gold import) point, the India Office has failed to secure the best possible prices for the rupees that it has auctioned on India's behalf, and to the extent of the difference between the prices accepted and the prices obtainable, India has suffered a direct monetary loss.

(4) Moreover, the strange obsession under which the India Office appears to be labouring, namely, that sales of Council Drafts are, to quote Mr Montagu's words in the House of Commons on the 30th July, 1912—

- “ an indispensable factor of British Indian trade, and it would be
- “ difficult to imagine how British Indian trade could be carried on
- “ without them                    trade would be brought practically to a
- “ standstill if these Bills were not issued ”—

this amazing exposition of what the Under Secretary of State for India described as

“ a well-known economic and financial practice,”

seems to indicate that Mr Montagu and the Office of which he is the spokesman, are both unfamiliar with some of the elementary features of international finance. Needless to say, British Indian trade would continue to develop as rapidly as hitherto were Council Drafts abolished to-morrow and never heard of again. But that such ridiculous statements should be put forward officially in the House of Commons, and that the India Office should conduct its sales of Council Drafts as though it believed them to embody some profound economic truth are the severest condemnation of India Office finance that has yet been made public.

(5) There can be little doubt that, quite apart from the material losses that India has suffered by the unsatisfactory management of her finances and currency in London in recent years, the wholly unnecessary removal of substantial portions of her treasury balances and monetary reserves has seriously affected British prestige and influence in India (and possibly elsewhere) by giving grounds among the educated classes for the belief that, in financial matters, Indian interests are liable to be subordinated, if not sacrificed, at the suggestion or recommendation of powerful monetary interests in London. It is of the utmost importance that this impression should be removed.

#### PART VII —“ The suitability of the financial organisation and procedure of the India Office ”

(1) The financial organisation and procedure of the India Office in matters relating to Indian currency and finance appear to me to be in need of radical changes. The organisation is defective, and the procedure obsolete and unsatisfactory.

(2) In the preceding parts of this Note various defects of procedure have been indicated. These may be summarised as under—

- (a) Grossly swollen cash balances have been held in London, amounting on one occasion to close upon 18,000,000*l*. A floating balance of 3,000,000*l* should be sufficient for all legitimate purposes.
- (b) The weekly auction of token coins, the supply of which rests wholly and solely in the hands of Government, belongs to the days of open silver mints, and is clearly obsolete. As well might the Royal Mint in London hold weekly auctions of sixpences, shillings, half-crowns, &c. Token currency should be issued at one fixed rate in relation to the principal standard coin—the sovereign.
- (c) The procedure which has transformed the Finance Department of the India Office into the principal Eastern Exchange Bank in London is unquestionably an unhealthy growth that should be cut away forthwith. It is no part of the Secretary of State's duties to play exchange banker for the benefit of either European buyers who desire to lay down funds economically in India for the easy purchase of Indian products, or certain sections of the export trading community in India who want to sell their bills to the local exchange banks at the lowest and most favourable rates for themselves. Council Drafts should be rigidly confined to the sum required for the Home charges, and should be allotted to applicants *pro rata*, at a fixed rate of exchange—in India's interest, the highest possible.
- (d) So, too, the procedure which has transformed the Secretary of State for India into one of the chief moneylenders in the world, should, in my opinion, be at once brought to an end. It is no part of the Secretary of State's functions to withdraw colossal sums of State money (of which he has not the slightest legitimate need), from India to London, only to find himself lending the money out to private borrowers in London in such profusion that—to quote Lord Swaythling's words in the House of Lords on the 14th November, 1912—"It was well known that so large were the amounts lent at one time this year by the India Council that there was a scarcity of the securities (which the India Office demanded against loans) among the approved borrowers, and the India Council therefore lent large sums to clearing banks at lower rates than they could have lent them to the approved borrowers" supposing that there had been more securities available." The whole of this business lends itself to the severest condemnation.
- (e) The removal of a substantial portion of the paper currency reserve and the bulk of the gold standard reserve from India to London is a wholly wrong procedure, in my opinion. The investment of 18,000,000*l* of these Indian Reserves in London in British securities is a further step in the wrong direction, in my belief, and one calculated to cause very grave embarrassment to London as well as to India in the event of war, or of a serious financial or economic crisis.

(3) The suitability of the financial organisation of the India Office to the work it is called upon to perform may be gauged to some extent by the way in which that work has been carried out. The public have no opportunity of surveying that work as a whole, but certain portions of it have recently come to light, and have caused amazement in many quarters. Thus—

- (x) *The Silver Purchasing Business*—The delay in making the recent purchases of silver for replenishing the token coinage (everybody measured up the situation more accurately than the India Office, apparently), the unbusinesslike seven year's silver contract with the Bank of England, the grave breach of that contract at the instigation of Messrs Samuel Montague and Co, the great loss of prestige and of Indian money involved in the whole transaction, these things have greatly shaken public confidence in the India Office's business capacity, and have created a very bad impression in India.
- (y) *The Money-lending Business*—This business appears to have been conducted on extraordinarily unbusiness-like lines. The India Office's loans to approved borrowers have been usually made for periods of three to five weeks, and this in spite of the fact that the India Office has frequently held £5/10,000,000 (sometimes more) in excess of all possible requirements. Instead of three to five weeks, many of the loans might have been made for three to five years without any likelihood of the money being required. (Indeed, some of the regular borrowers of India Office balances have been receiving loans almost continuously for over five years!) The only effect of giving the same borrowers the same money over and over again on loans for periods of three to five weeks appears to have been to have lost for India the higher rates of interest which loans for longer periods would have commanded, and to have made a present to the borrowers of long-period loans on short-period rates of interests. It is not surprising that in the scramble for the 14,000,000*l* of Indian money which the India Office at one time lent out to private borrowers, the supply of suitable securities in England ran short, and the India Office decided therefore to give several millions to the leading London bankers on no security at all! Borrowing 10,000,000*l* from the India Office at 2½ per cent. and depositing securities there again—(that yielded 4½ per cent. would yield the lucky borrowers about 200,000*l* per annum—probably the most easily earned 200,000*l* per annum in the United Kingdom or anywhere else).
- (z) *The Money Borrowing Business*.—This appears to have been conducted on even stranger lines than the money-lending transactions. The larger the unrequired cash

balance in London, the greater the difficulty in hiding borrowers in London to take all the spare millions sterling off the India Office's hands, the more determined the India Office seems to have been to preserve unbroken its regular habits of borrowing money in London, both temporarily and permanently, on behalf of the Government of India. Thus in 1910, with a cash balance some millions in excess of actual requirements, 5,000,000*l* was borrowed temporarily. In 1911, with an opening balance of 16,696,990*l* no less than 4,500,000*l* was borrowed temporarily, the closing balance for the year being raised to 18,390,130*l*. In addition to the above temporary borrowings, large quantities of permanent debt were also incurred. It does not appear to have occurred to the India Office (or if the idea was considered, it must have been rejected), that some portion of the surplus accumulations of revenue of which the India Office held substantial balances in London, should be used for capital works in India, thus saving India the expenses of a new sterling loan. The possession of enormous sums of ready cash in the till in London, for which no legitimate employment existed in the immediate or distant future, seems to have afforded no reason to the India Office for desisting from its customary procedure of borrowing, temporarily or permanently, and so practically simultaneous lending and borrowing has been carried on with no benefit to India that I have been able to discover, or to anybody else, except the borrowers and lenders themselves.

(4) Mr J. M. Keynes, formerly of the India Office, now Professor of Economics, Cambridge, and a Member of this Commission, has just published a book—"Indian Currency and Finance"—dealing with some of the matters now under consideration. The book was written before the appointment of this Commission, and is therefore a valuable expression of opinion by a well-informed and unbiassed exponent of economic theory who, in the nature of things, would hardly likely to be extravagant in his criticisms of India Office doings. Professor Keynes unfortunately does not tell us what he thinks of a Government Department who holds a floating cash balance 10,000,000*l* to 15,000,000*l* in excess of its requirements, nor does he, when dealing with India's reserves and cash balances, weigh the possible consequences to India of a crisis in London arising from (a) panic or (b) war involving Great Britain. For these reasons, his treatment of some portions of his subject appears to me defective. In many other matters, however, I find that Professor Keynes' views correspond exactly with mine, as may be seen from the following twenty brief expressions of opinion extracted from his book—

- (1) "At first the Government of India did not fully understand the nature of the new system several minor mistakes were made" (Page 1)
- (2) "The Government of India have drifted into a system and have never set it forth plainly" (Page 4)
- (3) "Prices have been rising much faster than is healthy" (Page 100)
- (4) "The methods of Government are exceedingly complicated" (Page 124)
- (5) "The Government of India's present system has no logical basis" (Page 172)
- (6) "The absence of appropriate arrangements constitutes a serious gap in the country's financial system" (Page 180)
- (7) "Part of the (paper currency) reserve should be lent out in India. Suitable security for this purpose would be Government of India securities (which would have indirectly the effect of increasing the market for rupee paper) and bills of exchange of the highest class" (Page 60)
- (8) "This slight scare was more than sufficient to make Government lose their heads" (Page 133)
- (9) "Having once started on a career of furious coinage they continued to do so with little regard to considerations of ordinary prudence" (Page 133)
- (10) "This time (1907-8) they (i.e., Government) got what they deserved" (Page 133)
- (11) "They (Government) framed the policy as though a community consumed currency with the same steady appetite with which some communities consume beer" (Page 134)
- (12) "Exchange could not have fallen so low (25th November 1907) if the Government had made gold freely available in India" (Page 136)
- (13) "So far from assisting the market, the Government were busy increasing the stringency by taking off the market, week by week, rupees which for the moment they did not in the least want" (Page 257)
- (14) "There are no high officials (in India) whose business it is to make finance the chief study of their life. The Financial Secretaryship is an incident in the career of a successful civilian" (Page 237)
- (15) "The statement made in answer to a question on this subject (Sale of Council Bills) in the House of Commons (30th April 1912) by the Parliamentary Under-Secretary was not quite correct" (Page 114)
- (16) "I do not think it has ever been thought out quite clearly (by the India Office) for what precise purposes these (sterling) reserves are held" (Page 147)

- (17) "By the end of 1912 they (the cash balances in London) had sunk again to a more normal level" (Page 129)
- (18) "Further accumulations (of Treasury balances) in the hands of Government ought to be put at the disposal of the Indian money market and not converted into sterling" (Page 179)
- (19) "It is slightly shocking to discover that the Government broker, who is not even a whole-time officer, and has a separate business of his own besides his official duties, is the highest paid official of Government with the sole exception of the Viceroy" (Page 192)
- (20) "They (the India Office) renewed India bills when they could have very well afforded to discharge them" (Page 191)

Professor Keynes throws the bulk of the blame on the Government of India, it will be noticed, rather than on the India Office. I cannot concur with this view. The India Office has—wrongfully, in my opinion—taken the management of many of the details of the working of India's currency and finance into its own hands, and must therefore be held responsible for blunders in matters of detail as well as in matters of general policy.

(5) That I am not alone in India in holding views of the India Office's financial activities the reverse of flattering to the department immediately concerned (the Bengal and Madras Chambers of Commerce are, I know, both satisfied that the management of India's finance and currency leaves nothing to be desired) may be gathered from a perusal of the files of the "The Times of India" since 1910. That well-known newspaper, it is everywhere recognised, deals with all matters with great sobriety and restraint, whilst on the subjects of Indian finance and currency it is far better informed than any other newspaper in India. The publishers of "The Times of India" have just issued in book form under the style of "Indian Currency and Finance" a reprint of a series of editorial articles dealing with many phases of Indian currency and financial questions. The articles are most valuable and should, I urge, receive the careful attention of this Commission. The conclusions to which the "Times of India" has come may be gathered from the following twenty comments which I have picked out here and there from the book—

- (1) "A species of dementia seems to have overtaken the administration of Indian financial affairs in London" (*Vide* page 51)
- (2) "Altogether indefensible" (Page 49)
- (3) "A reproach to England." (Page 39)
- (4) "The Council are unfit to discharge the important trust committed to their care" (Page 54)
- (5) "No such blundering and fateful incapacity has yet been disclosed as that now revealed" (Page 61)
- (6) "The greatest financial fiasco of modern times" (Page 64)
- (7) "A downright abuse of the system of effecting Government's Home remittances" (Page 86)
- (8) "A misuse of the credit of India." (Page 95)
- (9) "An intolerable and unfair burden on the public" (Page 69)
- (10) "A colossal blunder" (Page 97)
- (11) "It is impossible to conceive a more perverse system of currency finance" (Page 106)
- (12) "Government have gone out of their legitimate province" (Page 120)
- (13) "Great ineptitude has been shown" (Page 148)
- (14) "A gross injustice to the taxpayer." (Page 166)
- (15) "Finance gone crazy" (Page 54)
- (16) "Many irregularities and abuses are associated with the present system" (Page 209)
- (17) "A most unbusiness-like system and, in our judgment, indefensible" (Page 213)
- (18) "Impossible to imagine a more unbusinesslike procedure" (Page 224)
- (19) "The system as lately conducted is wasteful and expensive in many ways" (Page 150)
- (20) "A thorough revision of the system is called for" (Page 86.)

Comments of this character from the "Times of India"—one of the leading newspapers in the East—clearly indicates something "rotten in the state of Denmark"

(6) An organisation that produces results such as those described in the preceding paragraphs obviously needs remodelling—lock, stock, and barrel.



The Financial Department of the India Office and the Financial Committee of the Secretary of State for India's Council are both out of touch with modern economic thought and the current requirements of, and obligations to, modern India. The system which places the office management of matters financial and monetary relating to India in the almost arbitrary control of permanent officials of no great seniority who have never seen India, and whose sympathies are therefore mainly with their own immediate environment, calls for early reform. The more so as, in recent years, there has been an increasing tendency to over-rule and ignore the "man on the spot". Thus, the presence of two leading London bankers (with no personal knowledge of India) on the Finance Committee of the Secretary of State's Council, one of them being Chairman of the Committee, and the absence on that Committee of a single Indian or Anglo-Indian banker or experienced European official of the Government of India has resulted, as might perhaps have been expected, in the currency and finances of India being managed in accordance with practices acceptable to London joint stock bankers, and mainly, if not wholly, for the benefit of the London money market. The result has been a serious jeopardising of the reputation of British rule on its financial side, and a corresponding loss of prestige and influence for good which must now be recovered with the least possible delay.

(7) The equity of debiting the cost of the upkeep of the India Office to Indian revenues has been defended on the grounds that—

"[the India Office] is mainly concerned with all sorts of  
" banking and commercial activities, the management of debt, the sale  
" of bills of exchange " &c "

It is essential, therefore, that if no further questions are to be raised regarding this debit to Indian revenues, that all the banking and commercial business, &c, undertaken by the India Office shall be conducted solely in Indian interests, and not mainly for the benefit of a section of the London money market.

#### PART VIII — "Recommendations"

(1) The recommendations of the Indian Currency Committee made fourteen years ago and accepted by the Secretary of State and the Government of India in 1899, should now, I consider, be carried out in their entirety. I urge that—

- (a) The right of free coinage should be restored to India, and an open gold mint established at Bombay forthwith.
- (b) British sovereigns should be coined at the Bombay gold mint. If this be absolutely impossible, Indian sovereigns of exactly the same size, weight, and fineness as British sovereigns should be issued.
- (c) The Government of India should actively encourage the use of gold as currency, instructing their officers throughout the continent accordingly, and discharging all obligations possible in gold.
- (d) Beyond a small regular coinage to replace wear and tear and export out of India, no fresh rupees should be coined until the proportion of gold in the currency is found to exceed the requirements of the public.
- (e) Profits on the coinage of silver and other token coins to be kept quite apart in gold and carried to a special gold reserve. The gold reserve to be retained mostly in India, and only a minor portion to be invested—in Indian securities.
- (f) Sterling borrowing to be avoided as far as possible.

(2) In order that a *pucca* gold currency system of the British type (which Professor Dunning MacLeod before the Indian Currency Committee of 1893

\* *Vide* page 108 of Professor Leonard Alston's "Indian Revenue and Taxation," published by Macmillan, 1910.

declared to be the best in the world), may be established in India with as little delay and as effectively as possible, I further urge that—

- (g) Council Drafts be strictly restricted to the sums required to meet the Home charges, and additions to the token coinage
- (h) Council Drafts be drawn at one uniform rate. They are simply sales in London of sovereigns or rupees delivered in India, and the cost to the public should be only a shade below the actual expense of shipping sovereigns to India—in other words, a trifle below specie point. For the India Office to accept any lower rate is an altogether needless sacrifice of Indian revenue
- (i) The treasuries at Delhi and Karachi be included with those of Calcutta, Bombay, and Madras as treasuries on which Council Drafts can be drawn

(3) The above recommendations, if carried out in their entirety (and all but one are essential), will ensure the establishment in India of a first-class gold monetary system, and tend to raise India's financial status in the eyes of the world, and so facilitate the creation and inflow of cheap capital so necessary for the country's advancement. As soon as sovereigns are everywhere in circulation, and 30,000,000*l* in gold is held in the paper currency reserve, the gold currency reserve might be abolished and the money therein employed on reproductive works

(4) With regard to the location and management of the general cash balances and reserves, I urge that—

- (j) An effort be made to keep the Government of India's floating balances down to 10,000,000*l*, of which about 3,000,000*l* might be kept in London
- (k) As much of the floating balances as can be spared be placed at the service of the Indian public through the agency of the Presidency Banks and the Indian money market
- (l) The gold standard reserve ought to be held entirely in India. As the realisation of 16,000,000*l* worth of securities would no doubt somewhat inconvenience the London money market, I suggest that only 9,000,000*l* be disposed of, gradually, and the proceeds shipped to India in gold, the remaining 7,000,000*l* now lying in securities being retained, in securities, in London
- (m) The paper currency reserve, which is purely an Indian concern, should be kept entirely in India, and so far as the reserve, be invested in securities, such investments should be made in Indian securities

(5) The above recommendations, if carried out in full, will add greatly to India's financial strength, increasing confidence in the sterling value of the rupee, giving scope for the investment of Indian savings in Government securities, and affording cheap capital for temporary use of the Indian money market in financing the crops, &c.\*

(6) With the object of adapting the financial organisation of the India Office more closely to present-day requirements, I would suggest that the Finance Committee of the Secretary of State for India's Council should always include one senior civilian officer of at least 20 years' service in India and some experience of Indian financial matters, one Anglo-Indian banker of Calcutta or Bombay experience, and one (and only one) leading London banker. With the work of the Finance Committee confined to its proper dimensions and scope (as indicated in paragraphs 1, 2, and 4 above), a finance committee of three should be sufficient to keep the permanent officials of the Finance Department of the India Office on the proper lines.

(7) In concluding this Note, I desire to point out that most of the developments at the India Office to which objections have been taken in India and in Parliament have arisen during the last six or seven years—

\* See also my "Britain's Dilemma," published by Messrs. P. S. King and Son, Westminster, London, S.W.

since the policy of reducing the Indian civilian element in the India Office and on the Finance Committee of the Secretary of State's Council has been put into operation. Autocracy in India no doubt has its defects, but over 20 years' experience of India has convinced me that autocracy practised by men on the spot, closely familiar with the problems which confront them, exhibits advantages over autocracy ruling at the India Office and guided by men but few of whom have any personal knowledge of India and its peoples. In the case of the Finance Department, the absence of a senior experienced Anglo-India official from the Finance Committee of the Secretary of State for India's Council has synchronised with a period of currency and financial management that, from the point of view of India, can only be described as unsatisfactory in the extreme. India's monetary reserves and Treasury balances have been raided in a way, and to an extent, unheard of during the whole history of Britain's connection with her great Eastern Dependency. The consequences have been a blow to Britain's reputation for fairplay in matters financial, the effects of which it will take some time and care to remove. Whether these mishaps would have been avoided had the Finance Committee included an experienced Anglo-Indian civilian and a Bombay or Calcutta banker it is impossible to say. Certainly the currency and financial management could hardly have been more unsatisfactory.

(8) The conclusion to which I am forced, therefore, is that in reorganising the financial machinery of the India Office, the policy of removing or excluding the influence of the experienced Indian official should be seriously reconsidered. With no axe of any kind to grind, and accustomed by the duties of a lifetime to hold the scales evenly between many conflicting interests, the senior Indian civilian can bring an experience and influence to bear invaluable to those in England responsible for the upright and progressive administration of India. And if, with the experienced Anglo-Indian administrator, be associated a leading London banker, and a senior banker from Bombay or Calcutta possessing an intimate knowledge of the customs and requirements of the most advanced and go-ahead sections of the Indian commercial and financial communities, a finance committee of three can be formed who will be able to give to the Secretary of State for India the best possible advice on all matters relating to the management of India's currency and finances.

(9) Lastly, I would urge that the Government of India be allowed much greater freedom of action in matters of purely local concern than has recently been the case in connection with the management of India's finances and the development of India's currency. The Secretary of State for India in Council having laid down the general lines of policy that should guide the Government of India, the Governor-General in Council should, I submit, be allowed the fullest discretion in the actual carrying out of that policy. The subversion of this principle and the uncalled for and unnecessary exercise of authority by the India Office, appear to me largely to explain the circumstances that have led up to the present inquiry. Only by giving the Governor-General in Council the utmost authority and power, consistent with a due observance of the broad principles of government laid down by Parliament through the Secretary of State, can we hope successfully to administer and carry forward the further development of the Continent of India.

M DE P. WEBB.

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## APPENDIX XXII

## MEMORANDUM OF EVIDENCE SUBMITTED BY MR MARSHALL F REID, C I E

(A)—*Government Balances and Council Bills*

1 My 25 years' experience in India has been chiefly in connection with the import and export trades, and also the finance and management of cotton mills. Most of my time has been spent in Bombay, but I have been in Calcutta for three years, Madras for two years and a half, and Delhi for 18 months.

2 The average rate of interest in the commercial centres of India has not been immoderately high, especially in recent years when the country has been accumulating much wealth.

3 Presidency Bank rates average a little over 5 per cent, but they are not always effective, especially in the off season—95 is about a normal price for  $3\frac{1}{2}$  per cent Government Paper—Good Municipal and Port Trust 4 per cent bonds are usually above "par," and prosperous Industrials can get public deposits for 12 months at 5 per cent, and sometimes  $4\frac{1}{2}$  per cent.

4 But year after year we have to deal with a very stringent money market during two or three months, and the effect of this stringency is to restrict the movement of trade and to create a false level of prices.

5 There must, of course, be a considerable variation in the value of money owing to the busy and slack seasons being so clearly defined, but it should be possible to minimise the extreme stringency which prevails at certain times of the year by utilising existing resources to better advantage.

6 I do not think it will be disputed that a bank rate of 8 per cent., with Bazaar rates considerably higher, must be very injurious to the trade and industry of India, and these high rates come at a time when interior transport facilities are at their best.

7 Now it is noteworthy that Government balances have a habit of steadily increasing during the busiest months.

The balances during the last three years were —			
	1911.	1912	1913
1st January	Rs 13 17 crores	14 61	21 98
1st February	Rs 14.99 "	15 17	24 76
1st March	Rs. 17.16 "	15 78	26 06
1st April	Rs 22 35 "	18 44	28.93

It will thus be seen that, while the money market was going through an anxious time in the early months of 1913, and trade was being seriously hampered, Government were taking an increasing amount of money out of the market, and locking it up in the treasuries.

8 These balances were, it is true, available to the market through Council Drafts, but those who had access to the London market and therefore to Council Bills, were restricting their drawings on London, in view of the state of the London market. (It should be noted that during the twelve months ending with March, 1913 Council Drafts were sold to the extent of over 25,000,000l, whereas the Budget estimate was just over 15,000,000l, yet notwithstanding the free sale of drafts, the Government cash balances were unusually high.)

9 As Government apparently had no power to release these balances, excepting through Council Drafts, they created an artificial money market which had most injurious effects on trade and industries.

10 I say Government apparently had no power to release these balances, because, in point of fact, they did not make any attempt to do so, and I am told they declined a request for a loan of 50 or 100 lacs of rupees on the security of Government paper.

11 If it is admitted, as I think it must be, that it is against the interests of India and Indian trade for Government to lock up increasingly large sums of the country's money (which for one reason or another they are unable to release) just at the time when these funds are most required for moving the trade of the country, it will be well to consider what existing conditions and practices cause this undesirable situation, and what steps should be taken to remedy matters

12 It is remarkable, and I think it must be quite unsound, that the balances and currency of India should be under the control of authorities in India and London, who may be said to be almost isolated from the money markets and the chief commercial centres of India

13 To a business man there would seem to be only one place from which to control and direct any market, viz, the market itself—and if, as I think, this must apply with special force to the money market, then the control and management of the available finances of India—and I venture to suggest of the currency of India—should be located in the chief money markets and commercial centres in India

14 And it naturally follows that such management and control should be placed in the hands of those who have been trained in the market, and in the atmosphere in which they are called upon to operate. It can hardly be suggested that those who have been accustomed to control finance and currency in India have had much opportunity of qualifying themselves in this respect

15 I should like here to say that I have the very greatest admiration for the ability, integrity and versatility of the officers of the Indian Civil Service, and I have had many opportunities of seeing these qualities used to the great benefit of the country they are serving

16 Therefore what I may say in seeming disparagement of work now done by the Finance Department is in no way aimed at the officers in that Department, but at the system under which they are called upon to work

17 I suppose the primary duties of the Financial Department of a country are the collection and expenditure of revenue, and the training which Indian officers have during their service in the districts and in the revenue departments eminently qualifies them for these duties

18 But their training in connection with banking and currency can very rarely begin before they hold some important post in the Finance Department

19 And even when they get into this Department it is noticeable that they are rarely called upon or permitted to settle down in it, and make it their career, as the more senior men may be asked to fill up a Lieutenant-Governorship, or other high executive post, and the less senior ones may see their way to quicker promotion in other departments

20 I do not complain of this, as it is only natural that every man should try to direct his career on to the lines which promise most usefulness and most distinction, but I complain of the system which calls upon the officers of a department to perform duties for which they have not had opportunity to qualify themselves

21 Anyone acquainted with the inner workings of large banking and commercial concerns must know that the strength of these concerns lies largely in continuity of management, and in the traditions which that continuity has established. Each officer as he advances from grade to grade has increasing opportunities of benefiting from the experiences of his predecessors, and on the top of these experiences and traditions he erects his own original work

22 I have little doubt that Lord Rothschild and Mr Hambro had these considerations in their minds when, in 1898, they expressed their opinions to the effect "That the currency of a country can be better managed by a bank than by a government." If the finance and currency of India are to be dealt with in the best interests of India, it seems to me that the control and management should be entrusted to an organisation which has the

advantages of continuity of traditions, and of special training for the purposes for which it is constituted, and it should be located in the commercial centres

23 I do not propose to attempt to construct this organisation. If it were a Government department it would have to be a separate and independent one, and would have to possess that intimate touch of local conditions on which bankers and merchants rely, and for want of which Government departments must so frequently arm themselves with suspicion, and distrust, and delay

24 But whether it be a Government department, or a separate bank working in conjunction with the Presidency Banks, or an Imperial Bank absorbing the Presidency Banks, it should be constructed with a view to building up continuity and traditions, and giving its officers full scope for their abilities

(B)—*Gold Standard Reserve.*

1 Among the measures recommended by the Commission of 1898 were the coinage and circulation of sovereigns and the creation of a special reserve in gold in which the profits on the coinage of silver should be accumulated. In referring to them, I desire not to go beyond my own experience, and the conclusions I have been able to draw therefrom

2 In actual practice the recommendation of the 1898 Commission to create a special reserve from the profits on silver coinage has been made a prominent feature, and a separate gold reserve is generally regarded in India as a thoroughly sound measure. It is realised that like all insurance operations it must involve some loss of revenue, and the opinion I have generally heard expressed, and with which I agree, is that security and confidence are not dearly bought at some considerable loss of interest on the accumulated reserves

3 I presume the authorities, in disregarding this recommendation, have relied upon the fact that all Government's resources were behind them, and upon the belief, no doubt so far justified, that if a crisis occurred these resources would pull them through

4 Speaking as one of the mercantile community who is deeply interested in the exchange value of the rupee, I consider it of paramount importance that the authorities should gain the confidence of the public in the policy they are pursuing, and in the measures they are ready and able to take to minimise the effects of a crisis. But experience proves that the existing methods have not gained the public confidence in their ability and willingness to combat a crisis.

5 The fall of T T Exchange to  $1/3\frac{1}{8}$  in 1907—the anxious time the country went through in 1908—the uncertainty as to whether the authorities would take the steps they eventually did to maintain the exchange level at that time—the suspicion which undoubtedly exists that the maintenance of exchange is at times subordinated to other interest in the handling of Council Drafts—all these tend to breed want of confidence in existing methods, and though the conclusions which the public have arrived at may not be fully justified, this lack of confidence is very real, and those who are engaged in exchange operations are on the look out to secure themselves, even at some sacrifice, upon the least sign of uneasiness in financial conditions affecting India

6. It must, I think, be very desirable that the authorities should gain the public confidence that their policy is sound, and if they do not intend to carry out the whole policy recommended by the 1898 Commission, they should formulate and declare their alternative policy

7 Until this policy is formulated and established any talk of diverting the profit on rupee coinage to other purposes should be avoided. We have heard various amounts up to 20,000,000*l* mentioned as limits, and now I hear 25,000,000*l* spoken of. But it seems to me dangerous to forecast what the requirements in this respect may be in connection with a country like India which has doubled its trade in 15 years.

(C).—*Gold Coinage and Circulation.*

1 Whereas the recommendation of the 1898 Commission to maintain a gold standard reserve appeals to me, I do not find myself so enthusiastic about the Commission's recommendations as to gold currency and a gold mint. But the two are on rather a different footing, the gold standard reserve was recommended to insure security, whereas gold currency was recommended in anticipation of a demand for gold coins, and the gold mint was recommended to assist in meeting that demand.

2 If experience showed that gold currency was the best and most economical, and if the country showed a desire for this form of currency, these measures would be the natural ones to adopt.

3 I am aware that sovereigns are reported to be used in several districts to a considerable extent, but my opinion must naturally be largely influenced by my own experience, which is, that though sovereigns have been available in large quantities for some years, they are tendered to a very small extent in payments to my firm at the different ports, my enquiries lead me to believe that this is the experience of most other firms in the Presidency towns.

4 Seeing that the traders in the Presidency towns may be taken to be the most enlightened, we may fairly assume that they do not use the gold coinage which is available to them, because they do not consider it is the best and more convenient form of currency.

5 There must always be in India a vast number of transactions for which rupee currency is necessary. But for the larger transactions the people have the option of silver or gold coins, currency notes, and, to some extent, cheques.

6 Of these the most convenient and economical form of payment is, of course, the last named, and a distinct increase in cheque payments has been noticeable in the Presidency towns with the opening of numerous local banks.

7 Payments by currency notes come next in these respects, and by far the greater proportion of the balance of payments is made in this form. We may take it that the enlightened people of the towns know what they are about, and it is obvious that they are satisfied as to Government's ability to meet its obligations in connection with the note issue.

8 The increase of cheque and note transactions must have effected considerable economy in the country's currency, and the Presidency towns, consciously or unconsciously, have been adapting themselves to more scientific and less wasteful methods than formerly prevailed.

9 If this change is sound and economical, I do not think it can be wise to give gold coinage and circulation such a prominent place as they have lately been assigned in several quarters. In so far as gold coins are replacing token rupees in the currency, they must be making for security, but I find it difficult to see any advantage in replacing currency notes by gold coins, and I see a real evil in the encouragement of hoarding. To aim at stimulating the steadily increasing demand for currency notes must surely be a more ideal policy.

10 The proper place for gold seems to be the reserves. Extended use of notes would facilitate the growth of the note reserve in gold, and if the authorities would aim at satisfying the people that ample reserves would be created and maintained in India's interests, I do not think the people would be slow to respond.

11. In my experience the people of India are willing learners, especially where their own interests are concerned, and if they were satisfied that their savings were as secure in the form of investments in Government and other securities, or in currency notes, as in the more tangible form of gold and silver coins, they would gradually adapt themselves to better methods.

12. It should be borne in mind that it has been nobody's special business in the past to educate the people in these matters, but this would be one of the duties of a special organisation controlling the currency and finance of India.

(D.)—*Hoards*

1 The Commission of 1898 accepted the fact of the vast hoards in India and, of course, they are wasteful both from an economic and a currency point of view

2 I should like to suggest to this Commission that some serious attempt should be made to attract this mass of unproductive wealth from its hiding places and convert it to more useful purposes, and I do so with more confidence, as the continued prosperity of India must in ordinary course tend to aggravate the situation, owing to the increasingly large quantities of the precious metals which are finding their way into India

3 It is true that India has herself provided sufficient capital for all the developments which have recently taken place, for we find that out of 210,000,000*l* sterling which the United Kingdom provided for public investment at home and abroad during 1912, less than 3,750,000*l* went to India

4 But it is equally true that the provision which Government have found themselves in a position to make for the all important item of railway development has proved lamentably inadequate, and it cannot be gainsaid that India is far behind what she might be in industrial progress

5 It is admitted that much larger provision for railway development must be made in the near future in order to make up for past deficiencies in this respect, and it is generally conceded that the demands of the railways will continue on an increasing scale. Irrigation will also continue to make large demands on the resources of the country, and it is only to be expected that with increasing civilisation and enlightenment will come steady progress in industries

6 So much for the needs of the country. On the other side we have the question of financial provision to meet those needs, and it will be remembered that it was argued in 1898 that a fixed exchange would cause a flow of foreign capital to India

7 This capital may be available, but even though it were, it must clearly be to India's best interests that she should use her own vast unproductive wealth rather than go to the expense of borrowing other people's money and that this wealth is increasing may be gathered from the fact that during the three years 1910 to 1912 she claimed payment in gold from her trade debtors to the extent of over 60,000,000*l* sterling, after satisfying her appetite for her usual imported commodities

8 Signs are not wanting that some of the country's profits are either coming out of hoards or not going into them, and we are told that the co-operative banks are attracting some of the money of people up-country, while the local banks get the credit of obtaining some of their deposits from hoards. Feeder railways have also proved another means of attracting Indian money into new channels, but we have yet to learn what would be the effect of a systematic campaign against the time-honoured habit of hoarding.

9. Distrustful as the people of India no doubt are, by nature and by tradition, of any security short of possession, they are just as anxious to make money as the people of any other country, and there is every reason to suppose that, if investments—of which the security was undoubted—could be brought to their doors in convenient forms, they would gradually realise the uselessness of hoarding

10 As it has not in the past been anyone's particular business to educate India as to the best form of currency to use, so it has been nobody's special duty to teach her the best use to make of her wealth. But this education would be a natural part of the work of an organisation whose sole responsibilities were in connection with the banking and currency of the country

11. Among investments regarding which it ought not to be difficult to assure the public would be government paper and port trust and municipal bonds, indeed, the amount of such investments held by the up-country public is very considerable, and is steadily increasing. Raising the amount of the maximum deposit in savings banks (as has recently been proposed in France to attract "hoards") and the extension of the savings bank system



throughout the country are other possible methods, and I cannot imagine an investment which would appeal more to the Indian people than railway bonds, of which the security is so evident

12 The practice which has recently been resorted to of providing for railway capital expenditure from revenue—or from accumulated cash balances which is really the same thing—on a very large scale, seems to me to be an economic evil. In so far as the money so appropriated represents ordinary budget surpluses, the practice is perhaps not open to objection, but when surpluses run into very abnormal figures as in recent years only to be accumulated in the Treasury balances, and then to be made use of for capital expenditure, the system seems to require revision.

13. Such surpluses indicate an excess of revenue for Government's ordinary expenditure, and if India can bear the cost of providing this excess revenue to such an extent, it looks as if she ought to be able to borrow for capital purposes to a very large extent.

14 Surely a system of raising loans for railway capital requirements and paying interest thereon would be a wiser policy than leaving urgent railway developments to the chance of large surpluses being available, and curtailing these developments, however urgent, when adequate surpluses do not exist.

### APPENDIX XXIII

NOTE OF EVIDENCE SUBMITTED BY MR H F HOWARD, CIE, ICS,  
COLLECTOR OF CUSTOMS, CALCUTTA

#### I.—Location and Management of the General Balances of the Government of India

1 The facts regarding these balances and the causes which have been responsible for their growth during the last four years are stated in considerable detail in the memorandum on India Office balances which was recently presented to Parliament\* and in the papers which have been prepared for the Commission by Mr Abrahams †

2 Briefly the main points for consideration are —

- (a) Have the balances been unduly high?
- (b) Should the portion of the balances not required for the more immediate needs of Government be held in England or India?
- (c) Have the Secretary of State's balances been used in the most profitable manner?

3 With regard to (a) it is obviously necessary to consider the amount of the balances as a whole, whether held in England or India, and it is not clear that this point has not been overlooked in some of the recent criticisms regarding the large balances held in England and the manner in which these have been utilized. The following figures for the balances as a whole are taken from statement B of Mr Abrahams' memorandum (Appendix II, pages 74-5)

Total closing balance in £1,000s for the year ending 31st March —

	Budget	Actuals.	Adjusted Actuals.
1909 - - -	15,959	18,219	13,744
1910 - - -	15,591	25,074	18,725
1911 - - -	17,735	30,264	26,151
1912 - - -	21,221	30,670	27,526
1913 - - -	19,590	27,917	—
1914 - - -	16,639	(revised)	—

\* Cd 6619,

† See Appendices I and II

The figures for adjusted actuals exclude :—

	Received from loan issued towards Capital requirements in the following year	Portion of Opium surplus specially held towards discharge of temporary debt
1908-09 - - -	4,475	—
1909-10 - - -	6,370	—
1910-11 - - -	2,210	1903
1911-12 - - -	—	(1,903 + 1,241 =) 3,144

4 In the light of subsequent events it is clear that it would have been possible either to reduce the amounts borrowed or to discharge the outstanding temporary debt at an earlier date. As, however, has been explained by Mr Abrahams, excess receipts from bills and transfers can never be counted on until late in the financial year when the result of the monsoon and the trade and agricultural position are known, whereas the favourable opportunity for carrying out loan transactions usually occurs, if at all, early in the financial year, it follows that the proceeds of excess sales of bills and transfers cannot ordinarily be used for the avoidance or repayment of debt until the year after that in which the excess sales have taken place. The possibility of the excess sales to which Mr Abrahams refers is of course directly contingent on an improvement of budget anticipations in the financial position of the Government of India. It is usually impossible to gauge this with any reasonable approach to certainty whether it occurs in the form of increased revenue receipts or of lapses in capital expenditure or otherwise until late in the year or even towards its close. At the same time while it may be admitted that the postponement in the discharge of the temporary debt proved to be unnecessary, the anticipatory borrowing by which the balances have been swelled can be justified on more general grounds to which I refer below.

5 It will doubtless be urged that even after the exclusion of these items the accumulation is very largely in excess of the intention when the budgets were framed. The main heads under which the improvement occurred have been —

	1909-10	1910-11	1911-12
Revenue surplus - - - - -	£ 1,470	£ 6,143	£ 5,742
Lapses in capital expenditure on railways - - -	1,617	3,419	1,688

The more important fluctuations leading to increases in the case of the revenue heads have been those occurring under —

	£	£	£
Opium -	+1,119 (1909-10)	+2,871 (1910-11)	+1,680 (1911-12)
Railways net receipts -	-689	„ +1,251	„ +1,896

6 In 1912-13, out of a total revenue improvement of 7½ million pounds anticipated in March last, opium was expected to contribute nearly 1½ million pounds, and the railways 3½ million pounds. In the case of opium the principle has been accepted of budgeting only for receipts based on a certain normal standard and of treating the realised revenue in excess of this amount as "special" to be utilised for certain specified purposes. Under railways the experiences of recent years indicate that Government must always be prepared for large variations. Thus, while the railways paid 5.89 per cent in 1912-13, the return in the three preceding years was 4.99 per cent, 4.67 per cent, and 4.48 per cent, while in 1908-09 the railway system was actually worked at a net loss to the State after taking into account the interest payable by Government on the railway debt.

7 It has been thought in some quarters that too large a margin has on occasion been left on the side of safety in the estimate under this and other heads. This is a matter on which divergent opinions may be held but on

which it is necessarily most difficult to adduce any convincing proof on one side or the other

As I have not been personally associated with the preparation of a budget in recent years I do not propose to attempt any detailed analysis of the improvements in the estimate under individual heads. Moreover, I do not consider that such analysis would serve any useful purpose, as in my opinion the holding of balances larger than those required for the transaction of current business can be amply justified on more general grounds.

8 It is of course necessary in the first place to keep in hand a sufficiency of money for the ordinary transactions of Government, and experience has shown that certain minima are required for the purpose. In India the figure is about 12 or 12½ million pounds, at home it is taken at 4 million pounds or somewhat more (*vide* section V of Mr Abrahams' memorandum (pages 8-10 of Appendix I) and sections V and IV of the memorandum on India Office balances (Cd 6619)). The budget must therefore provide in any case for a minimum closing balance of approximately the total of these amounts.

9 There is, however, a further aspect of the question. The ways and means programme of the Government of India is liable to be disorganised at very short notice by the occurrence of a famine, and this may result in large variations in the railway programme which must necessarily be a very serious matter as involving loss of efficiency and disregard of economy. It would therefore appear to be entirely legitimate in certain circumstances to budget for a closing balance in excess of the minimum figure, and to retain something in hand in a good year as a margin to enable us to avoid the uneconomical retrenchment on capital expenditure, &c, that would otherwise be necessary in an unfavourable year. In fact this course would be entirely consistent with the recommendations of the Mackay Committee<sup>1</sup> which considered that our borrowings should not be determined so much with reference to the needs of the moment as to the state of the market. We ought, in other words, to take advantage of times when money is cheap and to put it away till it is required. And this is for all practical purposes what has actually been done, as the following figures show:—

	Price of Sterling 3½ per cents.		Net Amount of Borrowings	Provision for Railway Programme
	April	September		
			Million £	Million £
1909-10 - - -	98½	98½	13	10
1910-11 - - -	95½	94½	6½	10½
1911-12 - - -	96½	94½	1½	9½
1912-13 - - -	94½	93	3	9+1½

10 It appears that in spite of an increase in the price which the Government of India has had to pay for their loans, and a great diminution in their actual borrowings, the amount provided for railways has been kept fairly steady, though at a level considerably lower than many of those interested in the efficiency of the railway administration consider sufficient. It is generally recognised (even by purists in such matters, who hold that it is not legitimate to budget for revenue surpluses in order to provide funds for capital expenditure) that the Government balances, whether built up by realised surpluses, or loan funds or of such items as Post Office Savings Bank deposits, may quite legitimately be drawn upon for such purposes. I would say then that such excess balances may be properly employed, firstly towards the reduction or avoidance of debt, and secondly as a security against the results of famine with its consequences of a reduction in councils and fall in exchange. It is hardly possible to place these objects in the order of relative importance which may constantly vary. At any time the second may of course become supreme. In normal times, however, the excess may suitably be employed in the reduction or avoidance of debt. In view of the growing demands for funds to finance railway development, the employment of the balances to extinguish existing debt (other than temporary debt) would merely involve the uneconomical course of borrowing with one hand while

paying off debt with the other, and it would thus seem, if these opinions are accepted, that the excess balances should be used for the avoidance of new debt, or in other words for capital expenditure. This is no doubt what the Bengal Chamber of Commerce have in view in a letter recently addressed by them to the Secretary to the Commission\*. While entirely dissociating themselves from the various charges which have been made against the treatment of the large balances of recent years, they suggest that "a partial solution might be found if transfers from revenue to capital expenditure were governed by principles somewhat less rigid than those that are understood to prevail in the Finance department". From what I have said it will, I think, appear that the views held by the Finance department are more in accord with the suggestion made by the Bengal Chamber of Commerce than the latter have realised, and it appears to me that the point about which a difference of opinion really exists is whether it would have been better to use the money at once or to spread the expenditure over a series of years. Here again it might be possible to suggest that the estimates on which the earlier programmes were based were somewhat overcautious and that larger sums might well have been allocated. On the whole, in view of the difficulty which has been experienced recently in borrowing any large sums, the course adopted does not appear to be open to any very serious criticism. It has been necessary to depend a good deal on the balances, and if a much larger programme had been framed in the first year or two it would have been necessary in subsequent years to drop to a much lower figure.

11 The next question for consideration is the best location for excess balances pending their ultimate employment for the avoidance of debt. Until the money is wanted the question is obviously one of investment. The view urged by certain critics is that being Indian money any excess should be employed in India in the interests of Indian trade. It is necessary in the first instance to challenge the principle on which this criticism is based. The money is held on behalf of the general taxpayer. If it is possible incidentally to use it to assist Indian trade, so much the better, but any assistance which involved the Government of India in loss would be an indirect subsidy at the expense of the general taxpayer and would not be legitimate. The first consideration is therefore how to make the most profitable use of the money. Subject to this condition, there is so far as I can ascertain nothing to prevent the Government of India from lending money through the Presidency Banks in India should funds be available and should there be a demand for accommodation. In the past the Presidency Banks have occasionally asked for loans and have been given them. For some years there have been no applications.

12 It has been said that, against  $2\frac{1}{2}$  per cent which is apparently roughly what has been received as interest in England, 3 or 4 per cent could be made in India. The correctness of this statement is doubtful. Many of the larger banks which formerly readily gave 4 per cent. on fixed deposits for a year are now unwilling to do so. The Bank of Bengal are said to be turning away deposits, and the Bank of Bombay, I believe, stated only last year in a public report that they had more money than they could well use. There is admittedly no demand except during the busy season and even for this I am very doubtful whether any but small amounts could be satisfactorily placed.

In support of my opinion I may quote that of the Bengal Chamber stated in their letter to which I have already referred, that they seriously question whether it would be possible to lend large sums in India. They add that the difficulty in India is the provision of the necessary security, for, except in the case of the Presidency Banks, security of the class offered in the London market is not forthcoming to any great extent.

13. It is not, however, possible to give a definite opinion as to the amounts which might be utilised, and, I think, that enquiries might very well be made from the banks in India as to the terms on which they would be prepared to take moderate amounts. In view of the close connection between Government and the Presidency Banks, I think that these would be the most convenient channel for placing the surplus funds of Government at the disposal of the market. But I cannot see any inherent objection to making similar advances to the Exchange Banks. I see that in section III

\* Printed as annex to Appendix XXVI., pages 601-7

of Mr Abruham's memorandum (Appendix I, pages 3-7), certain objections are stated to the suggestion that money should be placed with the Exchange Banks in India. These reasons do not appear to me to be conclusive, and, in fact, I notice from an answer given to Mr Gwynne in Parliament on the 6th November 1912, that loans have been made in England to certain Exchange Banks from the Secretary of State's balances, viz, the Chartered Bank of India, the Eastern Bank, the Mercantile Bank of India, and the National Bank of India. I should not, however, be in favour of granting loans to firms and institutions other than banks for the reasons stated in the same memorandum.

14 There is a further point which it is necessary to consider in connection with the location of the balances. The question is not one which can be decided merely on a comparison of Indian and English rates of interest. The whole of the surplus of income over expenditure accrues in India, in the home Treasury there is a heavy deficit. The main use of any excess balance would, therefore, be to supplement the Secretary of State's resources when required. If it was retained in India as it accumulated in good years, it would have to be remitted to England when a bad year came. Government would thus be liable to lose heavily on exchange apart from the fact that the operation of remittance, unless this took the form of shipment of gold which has been lying idle in India, would, of itself, tend to cause a slump in exchange, if, indeed, such remittance by the ordinary means of the Secretary of State's drawings was not at such a juncture absolutely impossible.

15 It necessarily follows from what I have stated that I believe that it would have been a serious error in policy to have departed from the existing practice of selling council bills in excess of the budget estimates. From the Government point of view it affords a convenient and economical method of the transfer of funds, while, on the other hand, it is an obvious advantage to commerce and industry as enabling the free importation of funds especially in times of monetary stringency. Until recently the utility of the practice has never even been questioned, and I have seen no justification put forward in support of the criticisms that have been made during the course of the last few months. These appear for the most part to be based on the belief that the Secretary of State has used this method of remittance to transfer to England money that the Government of India would not require to spend in that country. This is not the case. This view is strongly supported by the Bengal Chamber, who have written —

“ The practice of selling council bills and transfers in excess of the budget estimate of the Secretary of State's requirements has been followed for many years, with the consent and approval of the commercial community of India. So far as the committee of the Chamber are aware it has never been suggested until recently that the practice is antagonistic to the best interests of India. On the contrary, mercantile opinion has always favoured the sales as being a convenience to trade. Nor can the committee understand how it can be said that the proceeds of the sales have been improperly withdrawn from this country, for the equivalent number of rupees have been liberated from the Indian treasuries, and have passed into circulation. The purchasers of the council bills and transfers do not want gold, but rupees and notes, in India, and if they were forced to ship gold they would change it on arrival for rupees and notes. The only result of discontinuing the sale of council bills and transfers would thus be that Government would be forced to receive in India a large quantity of gold, part of which they would have to re-export to England later on to purchase silver for the coinage of new rupees, such an extravagant procedure as this would be does not commend itself to the Chamber ” (pages 603-4)

16 With regard to the third point, to which I referred at the commencement, viz “ Have the Secretary of State's balances been utilised in the most profitable manner? ” I feel that I am not sufficiently intimate with the

conditions of the English money market to enable me to offer any useful opinion

17 Perhaps the next point that needs consideration is the proposal to establish a central bank, which was discussed at length some years ago. The reason originally put forward in support of this proposal seems to have been the maintenance of a gold reserve for exchange purposes, while it appears to have been thought that, incidentally, such a bank might be of value in ensuring a more plentiful and constant supply of loanable capital for trade purposes. Doubts were, however, expressed at the time whether any capital which the bank could be expected to put up would go very far towards supplying an effective gold reserve, and the possible capital for such a bank would certainly now be considered entirely inadequate for the purpose. Moreover, there is a further doubt whether the Presidency Banks could find opportunity for constant profitable employment of any substantial addition to their existing capital.

It is possible that certain other advantages might be obtained by the creation of a central bank. The whole question is, however, a very intricate one, and I should hesitate to express any definite opinion about its possibilities, until an endeavour has been made to formulate some definite scheme, and until this has been fully examined by the various interests affected. For example, there will, obviously, be serious difficulties in settling the question of the headquarters of such a bank to the satisfaction of all concerned, apart from that of the personnel of the directorate, and the place or places of their regular meetings. A further question is, whether one of the advantages anticipated from the constitution of a central bank could not be as well attained by allowing the Presidency Banks to borrow in London. On the one hand, it may well be argued, as suggested by the Government of India in 1904, that it is far more important to trade to ensure the provision of relief in periods of temporary scarcity of capital, than to endeavour to secure by the agency of a central bank the larger supply of permanent capital which it was at one time anticipated would be forthcoming in this way. Even if the exchange banks have done a great deal in this direction, they are not purely Indian banks, and it might on occasions suit them better to transfer funds from India at a time when a purely Indian bank would bring money out there. On the other hand, there are indications that the supply of capital in India has increased substantially in recent years. Thus, to take the figures for the growth of bank deposits (for convenience, I give those prepared by Mr. Reginald Murray, for a paper read by him before the Indian Section of the Royal Society of Arts, in January 1911, these deduct one-third from the figures of the Presidency Banks, as representing deposits of other banks) —

In crores of Rupees

1870	-	-	-	8 9
1890	-	-	-	15 4
1910	-	-	-	63 6

Mr. Murray estimated that, in addition, the capital and reserves of local banks have increased by over 6½ crores during the last 20 years.

18 I also give certain clearing house figures for the last six years, (I have not been able to get them for a longer period) —

In Lakhs of Rupees.

In Lakhs of Rupees.							
				Calcutta.	Bombay	Bangoon	Madras
1907	-	-	-	22,444	12,791	5,626	1,532
1908	-	-	-	21,281	12,524	4,719	1,706
1909	-	-	-	19,776	14,375	4,430	1,987
1910	-	-	-	22,236	16,651	4,765	2,115
1911	-	-	-	25,763	17,605	5,399	2,099
1912	-	-	-	28,831	20,556	6,043	2,137

Another straw which shows which way the wind is blowing is the appreciation which has taken place in the securities of the large port

trusts, &c Three years ago the price was in the neighbourhood of 95 (for their 4 per cent debentures with a 30-years term) It is now about 102 It is not certain whether the result is direct or incidental only I believe, for instance, as I have already mentioned, that several of the larger banks which formerly readily gave 4 per cent on fixed deposits for a year, will no longer do so, except possibly for very small amounts as a personal favour to regular customers And I have heard it suggested that the rise in the above class of debentures is partly due to the fact that a considerable quantity of money seeking a safe 4 per cent, which had formerly been content to lie in the banks on fixed deposit in this way was thus diverted But even so, the reduction in the deposit rate points to a more plentiful supply of money

19 For similar reasons, I am inclined to think that the Government might be able to raise somewhat larger loans in India than they have done in recent years But I doubt, at the same time, whether they can count on getting an appreciably larger sum over a period of years as the Indian money market is necessarily very limited as compared with London, and present indications point to their having to endeavour to raise as much as they can get on reasonable terms both in India and London in order to satisfy their growing capital requirements I do not think that too much attention can be devoted to the extension of the export trade of India and the building of railways for this end

#### II—*The Adoption of the Gold Standard*

20 Some of the criticisms which have been made in connection with the adoption of the gold standard and the fixing of the rupee at 1s 4d, indicate that the critical conditions which led the Government of India to take these steps are occasionally lost sight of In the first place, the depreciation of the rupee threw very heavy additional charges on the Government of India, and it is estimated that in 1894-95 taxation to the amount of over 8,000,000*l* sterling had to be levied in India over and above what would have been necessary if the change in the relation of the currency to gold had not taken place A no less serious feature of the situation was, as the Currency Committee of 1893 pointed out, that the Government were compelled to contemplate a further fall, the effect of which could not be forecast The progressive fall in the gold value of the rupee not only occasioned unexpected deficits, and obliged the Government to retain and sometimes to increase taxation, which it was anxious to remit, but also to stunt expenditure of the most necessary kind, to restrict public works, and to refrain from undertaking much required improvement with borrowed capital, both on account of apprehensions of the money market and the risk of contracting fresh gold obligations Again, apart from the direct loss to the Indian Government, and consequently to the Indian people, as it was on the general taxpayer that the added burden fell, the uncertainty attaching to the value of the rupee was a direct handicap to trade, and necessarily discouraged the investment of much needed private capital in India

21 It is, in my opinion, beyond dispute that the reform of the currency initiated in 1893 has not only greatly ameliorated the financial position of Indian Government, but has also coincided with great commercial prosperity and industrial growth, notwithstanding the retarding influence of serious crop failures during the period From 1896 onwards the revenues have mounted up year by year and large surpluses have been secured, in spite of substantial reductions of taxation, and considerable additions to the public expenditure for education, police and other urgent administrative requirements During the same period the external and internal trade of India has increased beyond precedent Again with the removal of the uncertainty attaching to the value of the rupee, British capital has flowed into the country and has made possible the general advance which has taken place From this source large additions have been provided to railway communications, irrigation works and industrial plant, the result being that India has been placed in a position to create capital on her own account, a position of which she is taking a steadily increasing advantage I have not been able to lay my hands readily on figures to cover the exact period that has elapsed since the gold standard became effective, but I may note that between 1900-01 and

1909-10 the number of cotton mills in British India increased from 177 to 210, the number of looms from 37,000 to 75,000, the number of spindles from  $4\frac{3}{4}$  to  $5\frac{1}{2}$  millions, and the persons employed from 145,000 to 215,000. The production of yarn during the decade rose from 343 to 593 million lbs., and of woven goods from 95 to 215 million lbs. Jute mills increased in number from 36 to 60, the looms from 15,000 to 31,000, the spindles from 317,000 to 646,000, and the persons employed from 110,000 to 204,000. Again, as Sir Theodore Morison<sup>1</sup> recently showed in some figures which he prepared for the purpose, the percentage of the manufactured goods imported into India as compared with the total imports has been steadily falling, while the percentage of manufactured goods among the exports has been simultaneously rising —

	Percentage of manu- factured goods imported to total Imports	Percentage of manu- factured goods exported to total Exports
1879 - - -	65	8
1882 - - -	57	16
1907-08 - - -	53	22

22 The growth of India's industries can only be regarded with satisfaction. It tends both to obviate the distress resulting from famines by the provision of a diversity of occupations, so that the employment of the labouring classes is not so exclusively dependent upon agriculture, and also to increase the wealth of the country as a whole by stimulating production of the raw materials required by the industries. But this industrial development is only one feature of India's general economic progress. Agriculture has always been and will doubtless continue to be the main industry of the country. Here we find that the net area estimated to be under crops rose from 180 million acres in 1899-1900 to 223 million acres in 1909-10. Of this area more than 16 million acres were irrigated by the State canals for which capital accounts are kept. These canals which consist of about 13,000 miles of main canals and 31,000 miles of distributories, were constructed at a cost to the State of  $37\frac{3}{4}$  millions up to the end of 1909-10. This substantial increase in the cultivated area is necessarily largely in response to the increased facilities which have been provided by the steady improvement of communications for the cultivators to market their goods. Thus the railway mileage stood at 32,400 on March 31st, 1911, as compared with 24,400 miles in 1900. In 1910 more than 65 million tons of goods were carried over an average distance of 184 miles at an average cost of rather less than  $\frac{1}{2}d$  per ton per mile, as against 43 million tons in 1900. The corresponding figures for the passenger traffic were 372 million persons in 1910, as against 176 million persons in 1900, carried an average distance of 36 miles at a cost of about one-fifth of a penny per mile. Incidentally the figures would seem to point also to an increase in the general prosperity of the people, of which further indications may be found in the increased use made of the postal and telegraph departments. Thus the estimated number of letters, postcards, &c., sent through the inland post rose from 469 millions in 1900-01 to 332 millions in 1910-11, the number of private telegrams despatched from  $4\frac{3}{4}$  to  $10\frac{1}{4}$  millions, the number of inland money orders from 13 to  $24\frac{1}{4}$  millions, and their value from  $17\frac{1}{2}$  to 28 million pounds. If there is any question that a distinct improvement in the standard of living has taken place in many parts of India, evidence of this can be found in the increase in the imports of petty luxuries. Thus to take a period of five years only between 1905-07 and 1910-11 imports of iron lampware rose from 157,000*l*. to 227,000*l*. in value, glass lampware from 46,000*l*. to 82,000*l*., sewing machines from 79,000*l*. to 159,000*l*., patent medicines from 119,000*l*. to 155,000*l*., boots and shoes from 194,000*l*. to 305,000*l*., the number of pairs increasing from  $1\frac{1}{4}$  to more than  $1\frac{3}{4}$  millions, haberdashery from 361,000*l*. to 418,000*l*., clocks and watches from 123,000*l*. to 134,000*l*. in value, and in number from 465,000 to 647,000, glass beads and false pearls from 160,000*l*. to 187,000*l*., matches from 421,000*l*. to 559,000*l*., and toys and requisites for games from 191,000*l*. to 258,000*l*.

23 It cannot of course be pretended that the adoption of the gold standard is the sole cause of these and other remarkable results which have



coincided with its introduction. I have ventured, however, to cite these in answer to critics who have alleged that the change would have or has had an injurious effect on India

### III—Gold Currency and Gold Coinage

24 In considering the measures necessary to ensure the convertibility of the rupee, the Fowler Committee recognised that the principal use of a gold reserve was that it should be freely available for foreign remittances whenever the exchange falls below specie point, and there is a more or less general agreement that a gold reserve can be most effectively and economically employed when utilised in this direct manner. At the same time the Committee expressed the opinion that India should be allowed to possess the normal accompaniment of a gold standard, namely, a gold currency, that the Indian mints should be thrown open to the unrestricted coinage of gold on terms and conditions such as govern the Australian branches of the Royal Mint, and further, that when the Government of India had accumulated a sufficient gold reserve, and so long as gold is available in its treasury, it might discharge its obligations in gold instead of in rupees. The advantages generally claimed on behalf of an effective gold currency for India are that its existence would imply that the trade demand for currency could be met to a larger extent by gold instead of by rupees, and that the liability of Government for the redemption of rupees put into circulation would thereby be *pro tanto* diminished, and further, that in time of adverse trade conditions the gold in circulation would, to some extent, find its way back to the commercial centres and be available for the purposes of export. Entirely apart from these considerations it is, in my opinion, most desirable, in the case of a State managed system of the kind in force in India, that Government should aim at being in a position to supply the form of currency that may be at the time in demand.

25 The chief difficulty which the Committee apprehended would stand in the way of attaining an effective gold currency was the habit of hoarding. As to the extent to which the hoarding or melting down of sovereigns is now carried on, it has been most difficult, or I may even say impossible, to obtain any exact or accurate information. Such facts as are available regarding the circulation and hoarding of gold are set out in the last two reports of the operations of the Indian Currency Department, *vide, e.g.* pages 14 to 22 of Mr Gauntlett's report\* for 1911-12, and the accompanying statements at pages 41, *et seq.* The total absorption of sovereigns by the public during the 14 years ending with 1912-13 was 64,815,000*l.* (*vide* the statement on page 216 of Mr Abrahams' note on the proposals for the coinage of gold in India—Appendix VI.) There can be no doubt that a very large proportion of these sovereigns have been melted down or hoarded, but in connection with the latter practice I am doubtful whether any very sharp distinction can properly be drawn between the sovereigns hoarded and those in active circulation. So-called hoards may be used as money more often than the term is usually held to imply. In fact, the temporary hoarding of coins merely means a diminution in the rapidity of their circulation. It is not possible to give any definite estimate of the proportion of sovereigns actively in circulation. Mr Gauntlett has summed up the position by saying "In conclusion the facts of the year (1911-12) seem to substantiate the view that in Northern India, Bombay, and part of Madras, the use of the sovereign as currency is steadily increasing. In other parts of India its main use is still for conversion into ornaments or jewellery. If the sovereign could be used in the jute and rice trades as it is already used for wheat and cotton, its circulation would be increased enormously. Its use in the rice trade in Burma would displace notes mainly, but silver is still the form of currency used in the jute trade. As a good jute crop always leads to a large absorption of rupees, it is evident that the cultivators are wealthy, so that the sovereign ought to be a suitable coin for them." The sovereign is in fact, in my opinion, a suitable coin for India generally. The Punjab wheat crop is already largely financed by its use, it circulates freely in Bombay, and has, as Mr Gauntlett's report shows, penetrated up country to a considerable extent. Apart from this it has, as the Government of India pointed out in their despatch, obvious advantages over a distinctively Indian coin for use in the international exchange.

\* Not printed, published in the Gazette of the Government of India for 21st December 1912.

I may also mention that I do not think that the sale of Council bills at 1s 4½d per rupee can be said to tend to keep gold from circulation in India at the present time. Though Councils have been sold in excess of the amounts budgeted for, they have not been sufficient to meet the whole trade balance, and have not, therefore, prevented sovereigns from flowing into India in enormous quantities. These are, as Mr Abrahams has stated, for the most part tendered to Government in exchange for rupees and notes at the rate of Rs 15 to the £. Sovereigns so received are made freely available to the public against the tender of rupees or in encashment of notes at this rate. In spite of this the sovereigns lying in the paper currency reserve in India on the 31st March 1913 amounted to nearly 20,000,000. The following figures show the absorption of sovereigns by the public during the last three years, and the amount in the paper currency reserve in India on the closing day of each year —

	Net Absorption			Balance in Paper Currency Reserve in India.
	After passing through Government Reserves and Treasuries	Direct Absorption	Total	
1910-11 -	7,177,000	914,000	8,091,000	6,186,000
1911-12 -	7,592,000	1,289,000	8,881,000	15,554,000
1912-13 -	Not available		11,005,000	19,583,000

From certain points of view it must be admitted that a paper currency with gold in reserve is more economical than a gold currency. I do not think, however, that there is any suggestion of endeavouring to extend the circulation of gold to any extent at the expense of notes. The Government of India have done much to increase the popularity of their note issues in recent years by the universalisation of the notes up to and including 100-rupee notes. The position which I would have Government aim at is, as I have already said, that of being able to supply the form of currency that may be at the time in demand, and consequently of giving gold when required in exchange for notes. If there is a demand for gold for currency, confidence can only be secured by its supply. Though the increased use of sovereigns may have some slight effect on the note circulation, it does not appear to have been very great. Mr Gauntlett writes: "It is a possible inference that " in the year under review the increased use of sovereigns has resulted in " less use being made of 10-rupee notes than would otherwise have been " made. It must be admitted, however, that the figures in previous years " have not justified a similar inference, and it is not possible to come to a " final conclusion on the matter." The position appears to be that though the use of gold and notes may overlap to some extent, there is a sphere for both of them. It is possible that a 10-rupee piece might compete with the 10-rupee note to a greater extent than the sovereign does, if so, this would be an additional reason for preferring the sovereign to a special 10-rupee coin or a gold coin for India. I am in favour of opening a mint in India for the free coinage of gold, and for the reasons which I have indicated above I should prefer the sovereign to a special Indian coin, such as a 10-rupee piece. I do not think that any seignorage should be charged on the coinage of sovereigns. The result of the imposition of such a charge, unless it were purely nominal, would apparently be to stultify the action taken in opening the mint. With regard to the advantages to be attained by the opening of a mint, I cannot add to what has been said in the Government of India's despatch of last year on the subject, and in paragraphs 50-52 of the last Indian Financial Statement\*. It may be that the opening of a mint would not directly or immediately operate to increase the circulation of gold. It appears to me, however, to be anomalous that though gold is now the standard metal of the Indian currency, gold bullion in India can only be converted into legal tender currency in India by being sent to England (or Australia) and there coined into sovereigns. It would at present not even be possible, should circumstances draw gold ornaments or bullion out of hoards, to reconvert these into standard coin otherwise than by this roundabout process.

\* H C 130 of 1913.

IV.—*The Exchange Standard*

26 The essence of the exchange standard is that the local currency is not necessarily redeemable in gold, but is kept near a fixed par with gold by control by Government (or a central bank) of the foreign exchanges. The Government or the bank make arrangements for the provision of foreign remittances in gold at a fixed maximum rate in terms of the local currency. It is thus necessarily dependent on other monetary centres.

27 Though under the system now in existence, Government does not undertake to redeem the currency in gold, it is in my opinion desirable that Government should aim at always being in a position to redeem, and I do not think that they should attempt to husband the supply of gold by refusing to give it out when available.

The extended use of gold in India may, as has occasionally been suggested, by taking off a portion of the world's supply of gold which would otherwise tend to cause a further rise in world's prices, have certain possible advantages from this point of view. I would not, however, attempt to justify it on this ground and I am not sure that it would be legitimate to do so.

28 I have indicated elsewhere that the primary object of the gold reserves of the Government of India is to maintain exchange. And this result can probably be most directly and economically obtained if the main portion of the reserve is held in London. It is essential, therefore, that an adequate reserve should be so held. Beyond this, however, Government should endeavour to meet internal demands on it for gold in India, and to hold gold in that country also sufficient to ensure this. The free issue of gold in India at the time of a crisis may form a valuable supplementary measure to the sale of sterling bills on London.

29 I may add in this connection that I should not attach any importance to such a criticism as that (in the particular case with which we are concerned, viz., that of England and India) the "guardian country" relies on the earmarked gold as a possible resource for itself in a crisis. While I consider that a substantial portion of the reserve in the guardian country should be held in a liquid form, I do not see any objection to the investment of the balance, in fact, I consider that it would be uneconomical not to invest it.

30 I do not myself share the theoretical objections urged by some persons to "State-managed systems" as such. I understand that, outside the United Kingdom, no system can be said to be free from management. Whether such management should be exercised by Government or by a bank brings one directly to the question of a State or central bank. An American writer, Mr. Conant, has gone so far as to say that "constant intervention by the Government is a part of the existence of any system, even where free and "gratuitous coinage on private account is authorised by law."

31 I do not think that there have been any undesirable complications as between the paper currency and the gold standard reserves, or that the use to which these have been put has afforded any legitimate ground for misunderstanding or suspicion on the part of those using the currency. It is possible that some features in these reserves which have grown up in the course of the development of the Indian currency system might now be simplified so as to make the arrangements somewhat more intelligible to the layman, but I do not consider that any question of principle is affected.

V.—*Gold Standard Reserve*

32 I think that the existence of a special gold standard reserve is essential, and that it should be held partly in liquid gold and partly in securities. As to

the latter I agree with the view expressed in section III of Mr Abrahams' memorandum (Appendix III, page 88), that the holding should as far as possible be in the form of securities due for early redemption at a fixed date. For reasons which I have already explained I think that the main portion of the reserve should be held in London, and that the 25,000,000<sup>l</sup> up to which it has been decided that this branch of the reserve should be allowed to accumulate should be regarded as a minimum figure, and that its adequacy should again be considered when this figure has been reached, in the light of the circumstances of the time. Mr Abrahams, in estimating the amount required for safety, bases his calculations on the experience of 1907-08. I think that in coming to a decision, it is necessary to bear in mind the fact that the annual expenditure in England, now chargeable to the revenues of India, is estimated at over 20,000,000<sup>l</sup>. I entirely agree with the system of earmarking gold for the reserve at the Bank of England and consider that here again 5,000,000<sup>l</sup> should be regarded as a minimum figure. This may perhaps be sufficient, provided that the bulk of the balance of the reserve is held in securities maturing at a short date, or if it is decided to continue the practice of holding a substantial portion of the paper currency reserve gold in London. It must, however, be remembered that in 1907-08 the centre of the financial crisis was in the United States. It is not inconceivable that a crisis in London might be even more serious, and I should prefer to hold 10,000,000<sup>l</sup> to 15,000,000<sup>l</sup> in liquid gold in the London branch of the reserve, and to see the total holding in the gold standard reserve there standing at 30,000,000<sup>l</sup> than at 25,000,000<sup>l</sup>. It is so essential that the reserve should be entirely adequate that I do not consider that it is possible to err on the side of caution, in spite of the expense which a large gold reserve must admittedly entail.

33 I do not approve of the action taken in 1907 when funds previously allocated to the reserve were used for railway development in India. I consider that this was, to say the least of it, premature. And it had the great incidental disadvantage of causing the public to have grave misgivings as to the future policy of Government in regard to the treatment of the fund.

34 I should be inclined to continue to hold some portion of the reserve in India. I do not, however, regard this as essential, provided that Government arrange to hold in the paper currency reserve stocks of (a) rupees, and (b) sovereigns sufficient to meet the demand for either coin that may arise in India. If it be decided to retain the Indian branch of the gold standard reserve, this could not very well be held in securities, the question whether it should be held entirely in gold, or partly in gold and partly in silver, and its amount, must be dependent to some extent on the decision as to the future relations in certain respects between the paper currency and the gold standard reserves, to which I refer below.

35 I do not think it is necessary, for the present at any rate, to put the gold standard reserve on a statutory basis.

#### VI.—Paper Currency Reserve

36. I am not in favour of amalgamating the gold standard and paper currency reserves. These reserves are designed to secure two entirely different objects. To mix up the two reserves would probably give rise to distrust and suspicion. The object of the gold standard reserve is to secure the parity of the rupee with gold. That of the paper currency reserve is to secure the convertibility of the note circulation. For the latter purpose the first necessity is to provide a sufficient store of rupees to ensure against risk of shortage. With regard to the silver portion of the reserve, I agree with the view expressed by Mr Newmarch that the policy sketched in paragraph 37 of his memorandum (Appendix VIII, pages 245-6), is generally suitable as a guide for action at the present time, though it may require modification and need not and should not be laid down as an absolute hard and fast rule. For similar reasons I do not think that the holding of gold in the reserve in London is open to the objections urged against it. It can be justified by the fact that when held in London the gold is one stage nearer the point at which it becomes practically effective for its

primary purpose of securing the encashment of currency notes by rupees, for the coinage of which the silver bullion can ordinarily only be procured in Europe and not in India. Certain other incidental advantages attach to the location of a portion of the currency gold in England which I need not enumerate.

37. With regard to the holding of gold in India it is true that the notes may be said to be issued mainly against silver, but this does not state the position completely. The rupee itself is now a fiduciary coin and it would seem to be most desirable that Government should be in a position to honour their notes by a direct payment of gold, should there be a demand for this. To refuse to do so merely involves the circuitous course of paying rupees for the notes and subsequently redeeming the rupees with sovereigns.

38. I do not see why the utilisation of the paper currency reserve as a line of defence against a fall in exchange need lead to complications. Provided that the primary object of the reserve is properly secured, there can hardly be any valid objection to its gold being utilised in the manner suggested.

39. I should, however, prefer not to call the paper currency reserve the first line of defence against a fall in exchange. It may not unreasonably be suggested that this rôle more properly attaches to the gold standard reserve, which can readily be so used if a portion of it be held in a liquid form. I think that the Secretary of State and the Government of India should be guided by the circumstances of the time in deciding exactly which of their gold reserves should be employed to this end, either at the initial or at any subsequent stages of a crisis.

40. The next point to consider is the future relation between the paper currency reserve and the Indian branch of the gold standard reserve. The latter at present consists, in its normal condition, of 6 crores of rupees, which will be replaced by gold transferred from the paper currency reserve, when the demand for rupees to replenish the latter necessitates this. The position has arisen from certain circumstances in the recent history of the Indian monetary system, but, while it can be justified on grounds of history and convenience in the past, it must be admitted that it is somewhat anomalous, I am not sure that the objects in view cannot equally well be attained in another way, and that some slight modification of the existing arrangements cannot now conveniently be made. I would suggest that the rupees so held should now be transferred to the paper currency reserve against a similar transfer in sovereigns to the Indian branch of the gold standard reserve, and that the latter should in future normally be held in sovereigns. Mr Abrahams, in section vi of his memorandum on the gold standard reserve (Appendix III, page 95), has pointed out a possible drawback to this alteration, viz, that it may at times be convenient to sell Councils against the Indian branch of the gold standard reserve, crediting the English branch of that reserve with the proceeds of the sales. When the necessity for such a transaction arises, it would, I think, still be possible to transfer from the paper currency reserve to the Indian branch of the gold standard reserve a sufficient number of rupees to meet the drawings of the Secretary of State on the latter, against an equivalent transfer of gold to the paper currency reserve in India. The gold received by the Secretary of State as the proceeds from the sale of the Council Bills, could then be credited temporarily, just as it would be under existing arrangements, to the gold standard reserve in England, and the net result of these transactions as regards the location of funds, would thus merely be a temporary transfer of a portion of the Indian branch to England. Such transactions will not, presumably, be very frequent, and they seem to be quite legitimate as affording additional elasticity, without in any way impairing the effectiveness of either reserve for its primary purpose.

41. It remains to consider the constitution of the paper currency reserve, and its distribution as between England and India.

*Gold in England*—I would suggest 5,000,000*l* as a suitable figure, for the normal holding.

*Gold in India*—The net absorption of sovereigns by India during the last three years has been —

		£
1910-11	- - - -	8,091,000
1911-12	- - - -	8,881,000
1912-13	- - - -	11,005,000
		27,977,000
Average	- - - -	9,326,000

The rate of absorption has grown rapidly. It may continue to grow steadily, or it may be the case that saturation point will be gradually reached and that the rate of absorption will increase more slowly in future, or even show some decline. But I would take these figures as a rough guide, and endeavour to hold in India enough gold to provide for 18 months to two years' internal absorption, say, 15,000,000*l* to 20,000,000*l* in round figures, between the Indian branch of the gold standard reserve and the paper currency reserve. On the assumption that the gold standard reserve holding will, in future be in gold, and that this will remain at its present figure of 4,000,000*l*, we are left with 11,000,000*l* to 16,000,000*l* (equivalent to 16½ to 24 crores) as the paper currency holding. Adding this to the rupee holding we have —

	Beginning of Busy Season	End of Busy Season
	Crores	Crores
Silver - - - - -	24	17½
Gold - - - - -	16½	24
	40½	41½

These figures are necessarily somewhat arbitrary and I would suggest a total coin holding in India of 40 crores in round figures, in addition to the 5,000,000*l* to be held in England, or 47½ crores in all. (This is also in addition to the Indian branch of the Gold Standard Reserve. If it is decided to abolish this I would make a corresponding increase in the coin holding of the Paper Currency Reserve in India.)

42 The total note circulation has increased very rapidly in recent years. For convenience of reference I give the figures from 1909 onwards —

March 31st	Total Circulation	Notes in Active Circulation among Public
1909 - - - -	45,48,79,505	34,95,08,965
1910 - - - -	54,40,84,250	39,98,06,520
1911 - - - -	54,99,05,815	40,17,22,230
1912 - - - -	61,36,25,095	44,61,25,095
1913 - - - -	68,97,78,240	Unavailable

The figures for the last year are doubtless swollen by the large holdings in the reserve treasuries as a result of the high general balances held in India. But in view of the great increase in the popularity of the notes which appears to have resulted from the universalisation of the notes of denomination up to and including Rs 100, it is improbable that any substantial set-back will occur, and I do not believe that there is any likelihood of the total circulation falling again below the figure of 61½ crores, at which the reserve stood at the close of 1911-12. This would allow for the existing investment without in any way trenching on the normal figure of 47½ crores which I have suggested for the total metallic portion of the reserve in India and England together. But I believe that it would be possible with perfect safety to go further than this. If the level of March 1913 be approximately maintained this would comfortably allow for an increase in the investment by another 6 crores,

bringing it to 20 crores. The gross circulation should not, however, be the only or even the chief guide, and in order to determine the limit of safety for the purpose of calculating the portion which may be invested it is necessary to look to the permanent circulation of notes among the public. As an idea of this it is usual to take the net circulation (after excluding the amounts held in the reserve treasuries of Government and the head offices of the Presidency Banks). For the three years ending with 1911-12 the figure were (in lakhs) —

	Average	Maximum	Minimum
1909-10	38,88	42,66	36,07
1910-11	40,82	43,37	38,52
1911-12 <sup>1</sup>	44,24	47,54	40,73
Average	41,31	44,52	38,44

Were it possible for me to include the figures for 1912-13 in place of those for 1909-10 there is no doubt that average figures would be substantially higher, but even on the above averages I consider that an increase of two crores in the investment could with perfect safety be immediately made, an investment of 16 crores represents a percentage of only about 38.7 on the average net circulation and of 41.6 on the minimum net circulation figures, which I regard as very well within the margin of safety. And I think that, unless entirely unexpected circumstances occur to arrest the growth of the reserve, it will be found that a further increase to the 20 crores already mentioned will be justifiable in the very near future.

43 With regard to the form which the investment should take, I should be inclined to make further investments in Government of India 3½ per cent rupee paper until the rupee investment reaches a figure of Rs 15 crores, equivalent to 10,000,000. In the case of subsequent investments the position could be reconsidered later on if necessary. At the time when investments were made in sterling securities the gold position of the Government of India was very much weaker than it is now and it was desired to strengthen it. Circumstances have now changed. With a substantial quantity of liquid gold both in the paper currency and the gold standard reserves that side of their defences should be secure. Moreover, in view of the large holding of sterling securities in the gold standard reserve I should prefer to see the investment now under consideration made in rupee paper. In the event of an investment being so made the simplest and most economical course would probably be for Government to make the issue direct to the paper currency department, instead of buying up existing loans from the market. This course has, I believe, been adopted on some previous occasions.

44 I should prefer not to express any opinion on the question of handing over the paper currency to a central bank, until the general advantages and disadvantages of such a bank have been further considered, and the proposals for its constitution have assumed a more definite form. I think that in any case the Government of India might be asked to consider the possibility of making the system more elastic, and that in this connection the suggestion that has been thrown out from time to time, viz., that at times of stringency loans should be given from the paper currency coin reserve, merits further examination. With regard to this proposal the late Sir Clinton Dawkins held that it is open to fatal objections. He said "It is the duty of Government to keep a coin reserve sufficient to ensure the convertibility of its notes. If the proportion of coin to securities in the total reserve is large enough to allow of loans being made, then that proportion is unnecessarily large. In such a case securities should be substituted for superfluous coin, and the general taxpayer, not any particular section of the taxpayers, like the banks, should benefit thereby." It might well be argued on the other hand that loans to banks are of the nature of a temporary investment, and that it may be convenient to Government on occasion to place out money in this way instead of making a permanent investment. The general taxpayer would not be prejudiced inasmuch as a suitable rate of interest would of course be charged on such loans.

VII—*Purchases of Silver, &c.*

45 I do not consider that the coinage of rupees, since 1899 has been excessive. Coinage has only been undertaken to meet the demands of the trade, and the issue of rupees when coined has been automatically limited by the extent of the demand. When the demand temporarily ceased in 1907, the coinage of new rupees was discontinued by the Government, and the sale of sterling drafts on London operated to redeem such rupees as were in excess of the reduced public requirements. These rupees were then held by Government in the Indian branch of the gold standard reserve. Both these and the further quantities which flowed back into the paper currency reserve were for all practical purposes withdrawn from circulation, until the revival of the demand for Councils indicated that the rupees were again required for trade purposes. Had it been possible for Government to force into circulation, or had they retained in the circulation, rupees in excess of the requirements of the time, a depreciation of the currency as compared with gold must necessarily have followed. This, however, was not the case, and the measures taken were sufficient to secure the convertibility of the rupee and thereby to maintain its exchange value.

46 With regard to the question whether purchases of silver should be regular instead of intermittent, I agree generally with what is said in paragraphs 39-43 of Mr Newmaich's note on the paper currency reserve (Appendix VIII, pages 246-7)

47 I do not think that there is any likelihood in the near future of such a change of conditions as would warrant the limiting of the legal tender of the rupee on the one hand, or the refusal to give rupees for sovereigns on the other.

## APPENDIX XXIV

STATEMENT OF EVIDENCE SUBMITTED BY MR. W B HUNTER, SECRETARY  
AND TREASURER OF THE BANK OF MADRAS AND CHAIRMAN  
OF THE MADRAS CHAMBER OF COMMERCEI—*The Sale in London of Council Bills and Transfers, and the Measures  
taken to maintain the Exchange Value of the Rupee*

1 With the great growth of Indian foreign trade, the original object of the sale of Council bills and transfers, viz, the provision of funds for the Secretary of State's requirements, has sunk into secondary importance.

2. If no Council bills were offered for tender, the Government of India would have no difficulty in remitting in normal years through other channels the full amount required by the Secretary of State, and in abnormal years the difficulty of obtaining such remittances would be no greater than the difficulty of selling Councils.

3 The chief reason for continuing the system is that under the existing conditions it meets the requirements of trade in the most economical manner by reducing the movement of gold coin from Europe to India, and *vice versa*, to a minimum, and *pro tanto* guards against unnecessarily disturbing the London money market.

4 Until, therefore, it can be shown conclusively that India requires a large quantity of gold in active circulation, a condition of affairs that does not now exist, it is desirable that Councils and transfers should be sold to an unlimited extent at a rate under gold point.

5 As a corollary to the above, when exchange weakens, that is when Telegraphic Transfers and Councils cannot find buyers at 1s. 4½d. and 1s. 4d. respectively, they should cease to be offered and the reverse operation immediately put into force, viz, the sale of sterling bills in India, at, say, 1s. 3½d.

6 Sterling bills on London drawn in India should be met first from the gold accumulation in the London portion of the currency reserve, and then from temporary investments, and thereafter from the permanent investments of the Gold Standard Reserve. The release of gold from the currency reserve as a first step is important, as the operation would ease the money market preparatory to realisation of securities.



7 The unlimited sale of Councils and Telegraphic Transfers on India can be provided for in the following manner —

- 1 By Treasury balances
- 2 By Indian branch of Gold Standard Reserve
- 3 By currency reserve
- 4 When necessary by new coinage of silver purchased by proceeds of bills

8. The source from which bills are to be met should be regulated according to the conditions ruling in the money markets in London and India at the time of sale, but, broadly speaking, the ruling principles should be When rates in London are stiff, gold must not be withdrawn either for export or earmarking for currency reserve, and all available balances in London should be lent freely. But equally with the above, when money is tight in India, currency must not be withdrawn in anticipation of bills being drawn, and funds in the general balances and reserves should be made available for Indian trade. With tight money in both markets the balance must be held evenly between them.

#### II—*The Location and Management of the General Balances of the Government of India*

9 The location of the general balances of the Government of India is so dependent on the demand for Council bills and condition of the money market, that no hard and fast rule can be drawn as to a maximum and minimum balance either in London or India

10. So far as possible as shown in my note regarding Council bills, the general balances of the Government of India should be put at the disposal of the market in most need of relief, transfers to and fro between London and India being a simple operation through the Currency Reserve as now constituted. The chief alteration in the location and management of the general balances of the Government of India required is that an end be put to the practice of locking up vast sums in Government treasuries and reserve treasuries. The withdrawal from active circulation of Rs 20 crores as at the 31st January 1913, with an 8 per cent rate ruling in all three presidencies, is undefensible.

#### III—*The Location, Disposition and Employment of the Gold Standard and Paper Currency Reserves*

11 The location of the Gold Standard Reserve, and its disposition and employment, depend largely on the exigencies of exchange and requirements of the markets. The silver portion can only be held in India, and the gold should be held in England, where alone it will be required to meet the object for which the reserve exists. It is not desirable that the sterling portion should be held in coin. The whole may safely be invested when the Currency Reserve is strong in gold.

12 The large holding of securities, which under certain circumstances may have to be realized, is not really a menace to London. The securities and bills held by continental nations are much more dangerous, for in the case of the latter securities may be sold and bills discounted with the object of obtaining gold for export, whereas with the securities of the Gold Standard Reserve such could never be the case. They can be sold only when the exchange has gone against India, that is when India has to pay for imports, the bulk of which come from Great Britain. If before sale of securities gold is released from the Currency Reserve no possible trouble could ensue. The gold so released would more than cover the possible demand from other countries in payment of Indian imports.

13 Taking the figures as at present—

In the Indian Currency Reserve and Gold Standard Reserve there are 25½ million pounds

The sterling investments in the Gold Standard Reserve amount to 17 million pounds

14 Therefore, for every 100*l* worth of securities sold or loans called in 150*l* in gold could first be released

15 With regard to the Currency Reserve, the silver portion should of course be held in India, but practically all the gold should be in London

Any portion held in India should be very carefully conserved. When exchange shows signs of weakening no gold should be given out but sterling bills should at once be made available. In 1908, when exchange fell, about 3,000,000*l* in gold was withdrawn from the Currency Reserve in India, but it was not exported in payment of foreign liabilities, and thus did nothing to support exchange.

16 The invested portion of the reserve lacks elasticity and in this respect the Paper Currency Act requires amending.

IV—*The Proposed Opening of the Indian Mint for the Coinage of Gold and the Forcing of Gold into Active Circulation*

17 In theory the advocates of the opening of the mints to gold coinage may have some right on their side, but in practice I believe the mints would be silent. If they were sufficiently active to justify their existence the result would inevitably be to force exchange against India.

18 Gold bars, which will always be required in India as a commodity, and which in the past have come principally from London, will no doubt continue to come from there, but banks requiring currency immediately will never import bars so long as sovereigns are legal tender, as they would have to wait for their money for the time between the delivery of the bars and the receipt of the gold coin in exchange.

19 Indian foreign trade being practically entirely financed through London, the amount required to balance India's excess of exports over imports will be arranged through London. A portion of the required amount will be met by sovereigns from Egypt and Australia, but there is no probability of gold for coinage coming in unless it can be attracted from Africa.

20 The exports from India to Africa are negligible, and gold attracted from Africa will have to be paid for in London.

21 Assuming that gold can be attracted profitably from Africa to pay the balance due to India from London, that is to say, that freight, insurance, and time in transit from African mines to Bombay compare favourably with charges and time in transit from mines to London, and that in exchange for the raw gold, currency can be obtained as quickly and economically as in London—there is no doubt the balance of trade in India's favour may be paid by gold attracted from Africa. But if this operation is possible to put through profitably it follows that all gold from Africa will follow the same course, Council bills will be unsaleable, gold will accumulate, and the exchange will be driven against India until a point is reached when it will be more profitable to ship the gold direct to London from Africa. To meet all objections arrangements might be made to receive gold at the mint and to issue rupees in exchange therefor without legislating for the minting of gold coins. Such an arrangement would meet a possible need in time of scarcity—enabling those with gold in any form to turn it into coin of the realm. If it were found that gold came in too freely, the arrangement could be rescinded more easily than the closing of the mints to coinage could be.

22. Under existing arrangements sovereigns are obtainable if required at the currency offices. Although they are now used as currency to a considerable extent in some places, the receipts are larger than the demand, and it is only by selling Councils below gold point that accumulation can be kept within reasonable limits. Receipts then being larger than the actual demand, it remains to consider whether it would be to the interest of India to force gold into active circulation. The disadvantage of so doing is the strain that would be imposed in London just at the time when gold is being withdrawn for Egypt. Stringency would ensue which would react on the Indian export trade.

23 There is no advantage in forcing gold when silver is acceptable. The demand is growing naturally and the danger is that the pace will grow too fast. The amount of silver in active circulation being so large there is no hope of saturating the currency for many years to such an extent that gold will come back from circulation when required to keep up exchange. Any gold which India can attract without upsetting the markets in gold-using

countries should be carefully conserved in the reserves. Gold is preferable to silver as currency only because it is more portable, but 'notes' are more portable than gold, and it is to the more extensive use of notes as currency that all energy should be directed. The larger the note-issue the larger will be the gold reserve that the Currency Department can carry, and such gold will be at hand when required to meet foreign obligations, whereas if forced out into circulation it will not come back in any large volume when required.

24. In the Madras Presidency disbursements of gold to the public have been considerable, and in addition native bankers import a constant stream of gold from Bombay, yet with the exception of the Native States of Cochin and Travancore, to which places the Bank of Madras alone has sent over 1,500,000*l.*, the amount of gold in active circulation is negligible.

25. Proof is not possible, but the inference is strong that so far the gold put out goes into hoards and jewellery.

26. The native of India is no less desirous of making his capital fructify than peoples of other countries, and the reasons for his propensity to hoard gold must be looked for in other directions than the love of his women for fine ornaments.

27. Among these reasons I would put in the front rank the desire to provide for wife and daughter, a provision a Hindu cannot make under existing law of succession except in the form of ornaments and coin. The Mahomedan law of succession is different, but owing to the purdah custom a form of provision that can be under the immediate control of the person to be provided for is preferred. In this Presidency those following the Murumukattayan law of inheritance make provision for their sons in gold, and this in part may account for the absorption of gold by Cochin and Travancore. Gold is also the only means available for making a settlement which will provide for the family in case of failure in business or loss of capital through other calamities. As Western ideas gain favour, therefore, the greater will be the propensity to hoard until a state is reached when the law of succession and the purdah custom break down.

28. The reason for hoarding being so strong it is apparent that the forcing of gold into circulation and thereby making its acquisition simple is fraught with danger.

#### V.—The Formation of a Central Bank

29. Since the last inquiry on Indian Currency and Finance in 1898 the Presidency Banks have made great progress —

	March 1898		May 1913	
	Capital and Reserve.	Private Deposits	Capital and Reserve.	Private Deposits.
	Rs		Rs	
Bank of Bengal -	283½ lacs	439 lacs	385 lacs	1,608 lacs
Bombay - -	165 "	238 "	206 "	978 "
Madras - -	70 "	210 "	146 "	861 "
	518½ "	887 "	737 "	3,447 "

An increase of 42 per cent in capital and reserve, and of 283 per cent in private deposits, the deposits in the Bank of Madras, the smallest of the three, being now only Rs 26 lacs less than the total deposits of the three Presidency Banks 15 years ago.

30. In spite of this great development there is the annual recurrence of an 8 per cent bank-rate, followed later for some months by a 3 per cent rate, showing that banking facilities are imperfect.

31. The chief cause of the great fluctuation is the inelasticity of the currency, accentuated by the withdrawal from active currency by Government of vast sums just at the season of the year when the movement of crops demands an increase. This season, with an 8 per cent bank-rate ruling in the three Presidencies, no less than Rs 20 crores (13,300,000*l.*) were so withheld from the market.

32 The remedy for many of the financial ills from which India suffers is the formation of a Central Bank, a bank that would command the full confidence of the Government of India, formed with private capital, the present Presidency Banks being the nucleus. It would have a London office with local boards in London, Bombay, and Madras, with its head office and central board in Calcutta.

33 All Government balances in India and London should be deposited with it. Branches should be opened at all places where there is a head quarters treasury, and cash, therefore, which had been withdrawn from circulation for payment of Government revenue, would immediately be available again for trade purposes.

34 With a chain of branches all over the country the bank could finance without movement of coin a very much larger proportion of the trade than can be financed under existing conditions, and thus reduce the amount of active currency required.

35 The paper currency should be transferred to the bank, and under such control the circulation could be largely increased with a corresponding reduction of the amount of coin in active circulation. Against the increased circulation gold (or sterling bills) would be held in the reserve, where they would be available when required to keep the exchange steady, instead of as at present being lost in hoards, from whence they will never be forthcoming when exchange falls. The bank should also have powers to increase the fiduciary issue within limits, the power to include the issue of notes against sterling bills. This would enable the bank to ease the market either in London or India. With unfavourable conditions in London Council bills would not be sold, but sterling bills would be rediscounted for the Exchange Banks in India. If tight money in India followed, notes would be issued against these bills, the revenue coming in all the time being made available for trade through the bank. With such conditions it would be immaterial whether the Secretary of State's balance in London or the Government of India's balance in India were the larger, as being with the same bank they would be available where most required. Gold would not be unnecessarily withdrawn from London, but all Indian balances would first be devoted to finance India's trade and public loans.

36 The capital for such bank need not be more than Rs. 15 crores (10,000,000*l*) with power to increase.

The following comparative statement may be of interest —

	Capital and Reserve 1	Liabilities to Public. 2	Per-centage of 1 to 2 3	Specie Reserve 4	Per-centage of 4 to 2 5
	£	£		£	
Bank of England - - -	17,700,000	95,000,000	18.6	31,500,000	33.1
Bank of France - - -	9,000,000	258,000,000	3.5	156,000,000	60.5
Imperial Bank of Germany -	12,600,000	163,000,000	7.7	52,000,000	31.9
Suggested Central Bank of India.	10,000,000	68,830,000	14.5	36,500,000	53.0

(The figures of the banks are taken from statements of December last)

37 The liabilities to public as shown against the suggested Central Bank include all liabilities of the three Presidency Banks and added thereto the active note circulation and estimated additional deposits by the Government of India. The Specie Reserve is the estimated specie with the Presidency Banks and specie held against the note issue.

## APPENDIX XXV.

NOTE SUBMITTED BY MR L G DUNBAR, SECRETARY AND TREASURER,  
BANK OF BENGAL, CALCUTTA

1 I have had the privilege of studying the memoranda prepared by Mr Lionel Abrahams, C B, on—

- (1) The Location and Management of the General Balances of the Government of India, and Sale of Council Bills and Transfers
- (2) The proposals for the establishment of a State Bank for India

2 All requisite information has, I think, been placed before the Commission fully and fairly by Mr Abrahams, and it seems unnecessary for me to say here more than that if the pronouncement of the Commission be in favour of the principle of a State Bank for India, the Bank of Bengal will be prepared to formulate a scheme for the establishment of a State Bank to undertake—

- (1) The duties of bankers to the Government of India and the charge of the Government Balances
- (2) The management of the Public Debt of India
- (3) The management of the Paper Currency
- (4) The management of the Gold Standard Reserve Fund
- (5) The establishment of a London office of the Bank to conduct the sale of drafts and transfers on India to meet the requirements of the Secretary of State, the purchase and sale of securities, the lending out at interest of surplus balances, and generally to undertake banking business of the highest class

3 In my opinion the capital of a State Bank for India should not exceed 5,000,000*l*, *i e*, Rs 7½ crores paid up, and the Bank should be formed if possible by an amalgamation of the existing Presidency Banks

## SUPPLEMENTARY NOTE

Bank of Bengal, Calcutta,  
10th June 1913

TO THE SECRETARY TO THE ROYAL COMMISSION ON INDIAN FINANCE  
AND CURRENCY

SIR,

I HAVE the honour to inform you that, in nominating Mr L G Dunbar, Secretary and Treasurer, Bank of Bengal, to give evidence before the Royal Commission on Indian Finance and Currency, the Directors of the Bank of Bengal desire to place Mr Dunbar's expert knowledge and experience of banking and finance in India at the disposal of the Royal Commission. But they wish it to be clearly understood that any opinions expressed by Mr Dunbar are his own personal views, and cannot in any way be binding either upon the Board of Directors or upon the shareholders of the Bank of Bengal.

The Directors, however, do authorise Mr Dunbar to say that they agree with the broad principles enumerated in the letter of 28th May 1913, addressed by the Bengal Chamber of Commerce to the Royal Commission,\* and if the pronouncement of the Royal Commission be in favour of the principle of a State Bank for India formed by the absorption of the three Presidency Banks under a reconstructed Bank, the Directors will, in consultation with the Government of India, at once take steps to formulate a scheme and lay the same before the shareholders of the Bank of Bengal for their consideration and approval.

Mr Dunbar has arranged to start for England on the 26th current and is due to arrive in London about 12th proximo.

I have the honour, &c,  
(Signed) C E SHORROCK,  
President, Board of Directors, Bank of Bengal

\* See Appendix XXVI, page 601

## APPENDIX XXVI

STATEMENT OF EVIDENCE SUBMITTED BY CHARLES CAMPBELL MCLEOD,  
ON BEHALF OF THE BENGAL CHAMBER OF COMMERCE, AND AS CHAIRMAN OF THE  
EAST INDIA SECTION OF THE LONDON CHAMBER OF COMMERCE

1 I desire to say that I am in accord with the despatch No. 997—1913, dated Calcutta, 28th May 1913, addressed to the Secretary to the Royal Commission on Indian Finance and Currency by the Bengal Chamber of Commerce, a copy of which is attached hereto (*see* Note A, page 601)

2 Briefly summarised, they state that they are of opinion that the existing Currency System is working satisfactorily, and that they are opposed to any changes which do not clearly demonstrate in a practical way that it could be strengthened and improved by any such change

3 They also recommend —

- (a) That the Gold Standard Reserve should be held in London, that no maximum limit should be fixed in respect of it, that a portion of it should be invested in gold securities, or placed on short loan, as at present, and that at least 5,000,000*l.* should be held in gold,
- (b) That the existing system whereby the Secretary of State sells Council bills and transfers in excess of his needs, in order to meet the convenience of trade, should be continued,
- (c) That the practice of loaning some portion of the Government balances to bankers, at interest, is reasonable and should be continued,
- (d) That no steps should be taken at present in the way of coining gold—either the sovereign or any other gold piece—in India, but
- (e) That, should it be decided for reasons of sentiment to coin gold, a branch of the Royal Mint should be established in India for the coinage of British sovereigns, and that no attempt should be made to introduce any other gold coin into India,

and they give clear evidence in support of such contention. To these I would add my support, and in addition I would like to make the following remarks

*Central State Bank*

4 I do not think that an institution of this kind is necessary at present. To begin with, I am of opinion that it would be quite impossible to efficiently control such an institution from one centre, and especially in a vast country like India, where different races have different forms and different ideas of banking. Moreover, with the present Paper Currency in the hands of the Government, there does not appear to me to be any reason for establishing a State Bank. The three Presidency Banks, with the Exchange Banks and the Indian Joint Stock Banks have, up to now, fully met the demands of Indian trade, and are capable of considerable expansion. The premium on the shares of the three Presidency Banks clearly indicates that they are capable of extension, and that capital for a very large increase would be readily subscribed in India. The same would no doubt apply to the Indian Banks, while the Exchange Banks have shown that they have increased their capital and reserves to meet the demands of trade as it increases. It would also, in my opinion, be inadvisable to give an institution of this kind a monopoly of Indian banking.

5 What I think of greater importance is that the attention of Government should be directed to the encouragement of co-operative societies, in order to help the agriculturist and to relieve him of the burden of the usurious *bumia* and money-lender. A system of this nature would greatly benefit Indian trade, and help to develop more fully the natural resources of the country.

*Capital Expenditure.*

6 I refer to this under the heading of Railway Finance. The policy of "extra caution" is carried too far, and sufficient attention is not given to the consideration of well-considered schemes for irrigation, and capital expenditure on railways. Looking to the relative position of the market price of India  $3\frac{1}{2}$  per cent paper, which stands at 96 per cent in Calcutta, as against 87 in London, it would appear that there are periods when capital borrowing in India is more advantageous.

*Sale of Council Bills and Transfers*

7 The existing practice has worked well, and has, I consider, been well handled. So long as Government secure gold value for the sale of these bills and transfers, I do not see why there should be any restriction to the full extent of trade demand.

*Gold Standard Reserve*

8 The amount to be held in actual gold should not I think be laid down rigidly. At present a minimum of 5 million would appear to be sufficient, but this might quite reasonably be increased to 10 million in future, as the volume of trade increases. The present system of utilising balances by investing a portion in easily realisable securities, and advancing funds on approved first-class securities, is in my opinion sound and prudent.

*Gold Currency and Coinage*

9 The advance made in the circulation of gold coins in India has not been very rapid, and is confined to the Northern and Western Circle. If gold currency is to become general in India it must necessarily be a slow process in a country accustomed to silver, and at present I do not see that any advantage would be gained by pushing it too rapidly. I am not in favour of coining gold in India. It is not required at present, and the process would be an expensive one; but if coining in India is decided upon, it should be in the most convenient form, and that is the sovereign. A departure to a 10-rupee gold coin would not in my opinion be a sound move, as it would not be of any use for export, while it would tend to destroy the standing of the sovereign, which has now become an international coin, moreover it would undoubtedly encourage "hoarding." There are millions among the Indian classes who could not afford to hoard sovereigns, but who might be tempted to hoard gold coin of lesser value, and there are many millions who would make use of the 10-rupee gold coin as ornaments who would not similarly use the more valuable sovereign.

*Purchase of Silver*

10 From recent experience it seems highly desirable that purchases of silver should be more regular than intermittent.

*Financial Organisation and Procedure of the India Office*

11 Without offering any criticism, I would like to suggest that the Financial Committee of the India Office should be composed of the following,

viz —

- (1) An ex-Civilian who has held the position of Financial Minister in India
- (2) An Indian Presidency Bank Manager
- (3) A London Joint Stock Bank Manager
- (4) A retired Exchange Bank Manager
- (5) A Mercantile Man with considerable Indian experience.

*Indian Railway Finance*

12. The question of Indian railway finance is one that deserves the closest attention at the hands of the Royal Commissioners, seeing that Indian railways have become perhaps the most valuable and remunerative

asset the State possesses. It is an asset which would become still more valuable if satisfactory arrangements were made for providing the capital necessary for its development. It is a factor which is not only in itself remunerative, but renders possible the development of other businesses in India. In this connection, it may be convenient to refer back to March 1907, when Lord Morley received two deputations from the Indian railway companies, and from East India merchants respectively, on the subject of the alleged inadequacy of the existing arrangements for railway traffic and railway finance in India. I had the honour to appear as one of the deputation of East India Merchants. Lord Morley was so impressed with the representations made to him that he appointed a Committee with Sir James Mackay (now Lord Inchcape) as chairman, before which Committee I gave evidence.

13 The Committee's report, dated 5th March 1908, was an exhaustive one, and dealt with every phase of Indian railway administration and finance.

14 Several witnesses before that Committee gave their opinion that the 30,000 miles then open would be, in the near future, increased to 100,000 miles, and the Committee, from the evidence before them, stated —

“ We believe that even their estimate of mileage is short of what will ultimately be found to be necessary in India, and we are convinced that there will be fruitful fields for large reproductive expenditure on railways in the country for years to come ”

The mileage open at present is 33,484 miles.

15 The average annual expenditure that could then be advantageously and profitably incurred was estimated by several expert witnesses to be from 10,000,000*l* to 21,000,000*l* annually, and the Committee finally recommended an expenditure of 12,500,000*l* annually for eight years. If the recommendation had been acted upon, Indian railways would have been in a very different condition to that in which they are now, as I pointed out to the Secretary of State on 10th June 1912, and 3rd June 1913, when he received a deputation from the East Indian Section of the London Chamber of Commerce on the subject of the congestion on Indian railways, due to want of adequate financial arrangements. I annex copies of what I said on both of these occasions.

16 The amounts actually expended for the last five years have been as follows —

	£	
1908-9	10,045,071	} Including lines under construction and rolling stock
1909-10	8,384,694	
1910-11	7,445,928	
1911-12	7,865,206	
1912-13 (revised)	10,214,100	

The average annual expenditure has been 8,790,999*l*.

17 During some years the expenditure has been less than the grant given by Government. The reason of such “lapses” is that the amount of the grant has not been known soon enough to enable the railway authorities to make satisfactory arrangements for the economical expenditure of the sums granted.

18 The whole Indian railway system is so dependent on well-considered financial arrangements that it is, in my opinion, necessary to recommend that a very much more liberal and comprehensive policy should be adopted. As a financial asset showing a rapidly increasing enhancement, there is no other enterprise connected with the Government of India which can compare with railways. The returns for 1912 show that after meeting all interest charges on capital outlay, annuity payments, &c., there was a net surplus of 5½ millions sterling. Omitting the item of annuity payments in redemption of capital which is not properly a revenue charge, the true result for the year is a net gain of 6½ millions, with a net addition of 645 miles to the open lines. The significance of such a rapid and substantial increase is surely sufficient to call for a more liberal and far-seeing policy.



19 The diagram accompanying the Administration Report<sup>1</sup> of railways in India for 1912 clearly shows how the gross earnings of Indian Railways are rising much more rapidly than the capital expenditure, and how remunerative increased capital expenditure has proved. The percentage of net earnings to capital expenditure has been most satisfactory over a long period of years.

20 Sir Guy Fleetwood Wilson, the late Financial Minister to the Government of India, in his last Budget speech, acknowledged the "immense significance" of our railways "as an instrument of general progress, then "necessity for development of trade, their growing, and indeed their momentous importance to the finance of India." He also adds "our responsibility "is all the greater now that they have attained a position of supreme "importance in our financial system."

21 It is a matter of regret that he deprecated, on the same occasion, "any departure from a policy of the utmost caution in railway finance," while at the same time he was dealing with a record surplus return from these railways.

22 I have no hesitation in stating that if the recommendation of the Committee appointed by Lord Morley in 1907 had been carried out, the figures would have by this time shown a very much larger return, and the benefit to the trade of India, as a whole, would have been immense.

23 The railway finance policy has for many years past been very far behind the times. Traffic has overtaken the railways and left them behind it. The demands on Indian railways have quite outgrown the provision made for their betterment and extension, and, it appears to me that if a very drastic change is not made in the arrangement for the regular provision of funds for railway expenditure, India will suffer and her rapidly increasing industries be throttled.

24 The latest reports of Indian railways show a remarkable series of increases in traffic. During the period (nine months) which the several reports cover, the Bombay Baroda traffic increased 200,000 tons, the Great Indian Peninsular 482,100 tons, and the East Indian 1,128,500 tons.

25 In the report issued by the Great Indian Peninsular the following statement appears —

"In the nine months under review Rs 59,99,377 have been spent in quadrupling the line at the Bombay end, in doubling the remaining sections of the Nagpur branch, and in adding to the capacity of station yards, and the same activity must continue until the line is in a position to carry what is offered to it."

26 If the Government finds itself unable to supply the financial wants of the railway system, it is open to them to transfer a part of their interest in Indian railways to companies working the railways, who could supply their own capital in such a way that their action would not interfere or compete with Government issues.

27. Mr Robertson, after full inquiry into the system of management of railways in India, came to the conclusion that it would be to the benefit of India that Government should lease all the State railways to companies for them to work, and a similar conclusion was arrived at by the Committee on Indian Railway Finance and Administration, which sat in 1908 under the presidency of Sir James Mackay (now Lord Inchcape), and the adoption of this policy would, by freeing them from the cares of management of the State railways, probably enable the Railway Board more efficiently to develop the Indian railway system as a whole to meet the rapidly growing needs of India.

28 The "annual programme," carrying with it an annual allotment, has many objections. It does not allow for a sufficiently broad view to be taken of what is required by the railways. To enable the railways to arrange a comprehensive and economical programme of development, it is necessary that they should have an annual allotment fixed over three or five years of the minimum amount they would have, with such additional amounts given each year, as Government may find possible. This

\* Published at Simla by the Government Central Branch Press

would enable each railway to work economically in carrying out the more important works. The leading companies are most anxious to improve the efficiency of their railways, and only lack the necessary funds for doing so.

29. In this connection I am strongly of opinion that a connecting link between the Railway Board in India and the Financial Department would be of material advantage.

30. It is argued that the difficulties of arranging finance for a period of three or five years is inconvenient, but I would point out that it has never been attempted, nor can I see where any serious difficulty presents itself with such a valuable asset to work upon, and a security that can be pledged, if necessary, outside of the ordinary circle of Indian loans.

31. With the expansion of irrigation schemes, and the natural progress of the trade of India, the call for transport will become more urgent and insistent, and if a policy of foresight is now pursued it will be possible for railways to keep pace with the increase, while on the other hand an over-cautious policy of railway finance will only lead to an aggravation of the difficulties now experienced, and the ultimate cost of setting matters right will be enormously increased.

32. In dealing with railway finance it should be borne in mind that it is equally necessary to help the financial position of the principal ports, which have lately been quite unable to cope with the increased traffic.

33. Finally, I would respectfully urge that the Royal Commission should invite the following gentlemen to give evidence on this most important question of railway finance —

The Right Hon. Lord Inchcape, G C M G , K C S I , K C I E

Col. Sir William Bisset, K C I E , R E

Sir Frederick Upcott, K C V O , C S I (East Indian Railway)

Mr John Manson (Bengal Nagpur Railway)

Mr Robert Miller

Mr A Breiton, C S I (Government Director of Guaranteed Railways)

C C McLEOD

10-11, Lime Street, London, E C  
18th July 1913

APPENDIX A.

*Bengal Chamber of Commerce.*

Royal Exchange Building,

No 997—1913

Calcutta, 28th May 1913

FROM THE SECRETARY, BENGAL CHAMBER OF COMMERCE, TO THE SECRETARY  
TO THE ROYAL COMMISSION ON INDIAN FINANCE AND CURRENCY

SIR,

I AM directed by the Committee of the Bengal Chamber of Commerce to address you with reference to certain of the subjects which will be investigated by the Royal Commission.

2. When addressing the Indian Currency Committee of 1898\* the Chamber took strong exception to the proposals which the Government of India had made in March of that year. The object of these proposals was to force the rate of exchange more rapidly to 1s 4d. for the rupee. Stated very briefly, they were that a gold reserve should be formed by borrowing; and that, if necessary, the redundancy of the currency should be reduced by melting down silver rupees. They were not accepted by the Currency Committee, who recommended that the British sovereign should be made legal tender in India, that the permanent rate of exchange should be 1s 4d. for the rupee, that the Indian mints should be opened to the unrestricted coinage of sovereigns, that the exclusive right to coin new rupees should be

\* Letter No. 793 dated 16th June 1898, from the Bengal Chamber of Commerce, to the Secretary, Indian Currency Committee. (C 9376, pp 17-18)

vested in the Government of India, and that the profit on the coinage of new rupees should be kept in gold as a special reserve, apart from the Paper Currency Reserve and the Treasury balances. The recommendation that the sovereign should be made legal tender in India was put into operation as from the 15th September 1899. The rupee and the half-rupee, although still remaining unlimited legal tender, thereupon became practically token coins with a value of one-fifteenth and one-thirtieth of a sovereign respectively. The Gold Standard Reserve Fund, to which the profits on the coinage of new rupees were credited, was established as from the 1st April 1900. But the proposal that the Indian mints should be opened to the unrestricted coinage of gold has not yet been acted upon.

3 The Chamber of Commerce, in the letter that I have quoted, fully recognised that the attainment of fixity of exchange was an object of primary importance. And it subsequently acquiesced in the adoption of the measures recommended by the Fowler Committee, as being calculated to attain this end without the disadvantages attaching to the proposals of the Government of India. There is no need to trace in detail the steps that have since been taken to strengthen, and to improve, the system which was thus inaugurated. But, as representing mercantile interests, the Committee cannot fail to be struck with the enormous growth of trade which has accompanied stability of exchange. They do not suggest that the Gold Standard has been the cause of this unexampled development. But it may be, they think, safely assumed that the commercial community, however much they may have been divided in opinion prior to 1898, are now in no way antagonistic to the main principles of a currency system which has brought about fixity of exchange, and under which such marked prosperity has been possible.

4 Although time has thus justified the establishment of the Gold Standard, and falsified the fears of its opponents, the Chamber has recognised for a number of years past that there are numerous questions connected with it which require further examination and elucidation. A consideration of these questions led the Committee nearly six years ago to recommend the Government of India to move for the appointment of an expert Commission of inquiry. They took exception to the formation, in 1906, of what, until within the last few weeks, has been known as the Silver Branch of the Gold Standard Reserve. Similarly they objected to the diversion to railway capital expenditure of a moiety of the coinage profits. It also seemed to them that the Government were pursuing a hesitating and vacillating policy in the matter of the limit at which the Reserve should be fixed. And they considered that an expression of expert opinion upon the important question of the form in which the Reserve should be held would be of great service both to the Government and to the public.

5 It is, the Committee feel, a matter for regret that their recommendation was not accepted, as much of the controversy which has since arisen might have been thereby avoided. For although at the time they had specially in mind matters relating to the Gold Standard Reserve, the currency question as a whole would doubtless have been examined by the proposed Commission. The matters to which they referred are included within the scope of the present investigation, and they therefore take this opportunity of communicating the views of the Chamber upon the more important of them. It has been urged in some quarters, since the establishment of the Gold Standard Reserve Fund in 1900, that the Reserve should be kept in gold in India. With this view the Committee are not in sympathy. In their opinion the Reserve must be held in London, and, as they pointed out in 1907, it would not be a business proposition to hold a sum of upwards of 20,000,000 in gold coin, or bullion.

6 They maintain that the Reserve must be held in London, because London is the place where it will be required in time of crisis. At such a time imports will be in excess of, or will balance, exports, and Council bills and transfers will be unsaleable. Exchange will fall, and the Reserve will

\* Letter No 1457, dated 6th September 1907, from the Bengal Chamber of Commerce to the Government of India, Finance Department (Appendix V, pp 172-4)

be brought into active operation. In the crisis of 1908 sterling bills were sold by the Government of India, on the Reserve, to the extent of 8,058,000*l.*, and the rupee currency was contracted by Rs 1,200 lakhs. If the Reserve had been held in India the gold would have had to be exported by the Government, for there is no substantial private export of gold from India when the silver exchange begins to fall. If it is held in London the gold becomes available at once to support exchange. Moreover, the effect which is produced on exchange by selling bills is precisely the same as if gold were exported. Commercial opinion in Calcutta is therefore clearly and strongly in favour of the location of the Reserve in London.

7 With reference to the form of the Reserve the Committee do not, as I have indicated, support the view that it ought to be held entirely in liquid gold. The investment of a portion of it in gold securities is economical, and they do not advocate that the interest should be sacrificed. They are fully alive to the argument that in a crisis gold securities may possibly be difficult of realisation. But it is not necessary to assume that there must be a heavy depreciation of sterling securities at precisely the time when the Indian exchange calls for support. The existing system came successfully through the crisis of 1907-08, the interest derived from the securities considerably exceeding the loss on their sale. The Secretary of State has recently decided to raise the sterling assets of the Reserve in London to 25,000,000*l.*, and to hold 5,000,000*l.* of this amount in gold\*. For the present a sum of 25,000,000*l.* is probably sufficient, but the Committee would object to it being regarded as the maximum. They take the view that no maximum limit should be fixed, and that the coinage profits should continue to be added to the Reserve. They would also like to see a larger sum than 5,000,000*l.* held in gold.

8 The general cash balance of the Government of India, like the Gold Standard Reserve and the Currency Reserve, has a rupee branch and a sterling branch. The latter is held in London, and the former in India. The enormous growth of the sterling balances during the last four years has furnished matter for much recent criticism. The causes of this great development will be, it is understood, investigated by the Commission, and the Committee of the Chamber desire, therefore, to express their views on the subject. They have given much consideration during the past twelve months to the charges which have been brought against the management of the India Office balances. The charges apparently amount to this—That many millions sterling of Indian money have been improperly withdrawn from India, that these sums have been extracted from the taxpayer in excess of the requirements of the State, that they have been withdrawn from India for use in London, not in pursuit of Indian interests, but for the convenience of English Joint Stock Banks, and that they have been loaned to these banks at an average rate of interest of little more than 2½ per cent per annum, while the average rate of interest in the Indian Presidency towns has been above 5 per cent.

9 The Committee of the Chamber have no hesitation in saying that they cannot associate themselves with these charges. In so far as the general cash balance of the Government of India represents the excess of revenue over expenditure it may be said that the money has been extracted from the taxpayer, and, generally speaking, excessive cash balances may be of course regarded as evidence of over-taxation. But the India Office balances are derived almost entirely from (a) the proceeds of the sale of Council bills and transfers on India, and (b) the proceeds of loans issued in London for providing capital expenditure for the Indian railways. The practice of selling Council bills and transfers in excess of the Budget estimate of the Secretary of State's requirements has been followed for many years, with the consent and approval of the commercial community in India. So far as the Committee of the Chamber are aware, it has never been suggested until recently that the practice is antagonistic to the interests of India. On the contrary, mercantile opinion has always favoured the sales as being a convenience to trade. Nor can the Committee understand how it can be said that the proceeds of the sales have been improperly

\* Financial Statement, 1913-14, para. 48. (H C 130 of 1913, page 16.)

withdrawn from this country, for the equivalent number of rupees have been liberated from the Indian treasuries and have passed into circulation. The purchasers of the Council bills and transfers do not want gold, but rupees and notes, in India, and if they were forced to ship gold they would exchange it on its arrival for rupees and notes. The only result of discontinuing the sale of Council bills and transfers would thus be that the Government would be forced to receive in India a large quantity of gold, part of which they would have to re-export to England later on to purchase silver for the coinage of new rupees. Such an extravagant procedure as this would be does not commend itself to the Chamber.

10 The practice of loaning the balances to London bankers has occasioned a great deal of adverse comment, but the Committee of the Chamber do not think that exception can be reasonably taken to it in principle. They would certainly object to any proposal for allowing the balances to lie idle in London, and they seriously question if it would be possible to lend large sums in this country. The difficulty in India is the provision of the necessary security, for, except in the case of the Presidency Banks, security of the class offered in the London money market is not forthcoming here to any great extent. That branch of the general cash balance which is held in India is also, like the India Office balances, greatly inflated at present. To suggest a satisfactory method of dealing with it is not easy, but the Committee incline to the view that a partial solution might be found if transfers from revenue to capital expenditure were governed by principles somewhat less rigid than those that are understood to prevail in the Finance Department.

11 The question of coining gold in India has been very carefully examined by the Committee of the Chamber for some time past. It was, as I have already mentioned, one of the recommendations of the Indian Currency Committee of 1898 that not only should the British sovereign be made legal tender in India, but that the Indian mints should be opened to the unrestricted coinage of sovereigns. The Government of India at that time desired to act upon this recommendation, and in 1899 they put forward definite proposals for the establishment of a branch of the Royal Mint at Bombay. These proposals were not, however, proceeded with. Administrative difficulties arose in connection with the proposed branch, and in the meantime the Indian gold-mining companies had made arrangements for the regular sale of their gold outside the country. The question was not again brought prominently forward until it was raised in the Imperial Legislative Council in March 1912, when a resolution in favour of the opening of the Indian mints to "the free coinage of gold in coins of suitable denominations" was moved. The resolution was withdrawn, but in the following May the Government of India asked the Secretary of State to permit them to open one of the Indian mints, preferably that at Bombay, to the free coinage of British sovereigns.\*

12 Unfortunately the Government of India did not consider it to be necessary to consult commercial opinion before renewing this particular recommendation of the Fowler Committee. The Indian Chambers of Commerce did not therefore have an opportunity of expressing their views upon it until the publication, at a later date, of the official correspondence. The Secretary of State did not apparently regard it with much favour. He pointed out that the difficulties with reference to the Royal Mint still existed, and in the result he suggested that it might be desirable to produce at one of the Indian mints a separate Indian coin of the denomination of, say, Rs 10. This course would be, his Lordship said, inexpensive, it would avoid the intervention in Indian coinage operations of the British authorities, and there was reason to expect that the coin would "satisfy such currency requirements as are not met by the present facilities for obtaining sovereigns, rupees, and notes."

13 The foregoing seems to the Committee of the Chamber to define the position of the question at the moment. So far as they are concerned they do not consider that it is necessary to coin either the sovereign, or any

\* Despatch No 110, dated 16th May 1912, from the Government of India to the Secretary of State for India (H C 490 of 1913, page 57)

other gold piece, in India at the present time, and they believe that they are supported in this view by commercial opinion generally on this side of India. Judging from the despatch dated 16th May 1912, the Government of India recognise that gold flows freely into India for the adjustment of trade balances, and that its local coinage would not accelerate the flow. They believe, however, that the sovereign would tend to become more popular if it were coined locally, and that the opening of a local mint would be likely to attract the bullion which is now hoarded in the country, as well as some part of the bullion which is annually imported. They point out also that, although gold coin may be readily converted into bullion in India, there are no facilities for reversing the process. By the adoption of their proposal a free movement would be established, they say, between coin and bullion in both directions. And the effect would be, in their opinion, to swell the volume of sovereigns in the hands of the people, and to increase their active circulation. Such an increase in the circulation would diminish the pressure on the Government of India for the coinage of silver, it would reduce their responsibility for the convertibility of the rupee, and would thus simplify exchange problems.

14 The Committee of the Chamber confess that they are not greatly impressed by these arguments. They think that the Secretary of State took a sounder view of the position when he said, in reply to the Government of India, that "having regard first to the ease with which holders of gold bullion in India can as a rule exchange it for currency whether sovereigns, notes, or rupees, if they wish to do so, and secondly to the probability that the gold imported into India is so imported because it is preferred in that form rather than in that of coin, the adoption of your proposal would not be likely to have any considerable effect of the kind that you anticipate." There is no doubt in the mind of the Committee of the Chamber that the effect of the proposal which the Government of India have made would be negligible so far as regards the objects they have in view. It is of course an admitted fact that the intention in 1893 was that the Gold Standard should be supported by a gold currency, and the first step in this direction was taken when the sovereign was declared to be legal tender. It was doubtless desirable at that time that the Government should signify their intention of coming sovereigns, as a proof that they meant to adhere to the Gold Standard. But after 1893 the position changed with great rapidity. The Gold Standard was soon firmly established, and sovereigns were readily attracted to India. They have continued—except for the break in 1907-08—to flow in until at the present time there is as the Government of India themselves admit, a very large accumulation in the Currency Reserve.

15 The sovereign is undoubtedly being more extensively used as currency in Northern India, in Bombay, and in part of Madras. But the Committee cannot accept the view that it has yet established itself as a part of the currency, nor do they believe that its coinage locally would tend appreciably in that direction. The receipts of sovereigns\* at post offices and railway stations are a fair indication of the extent to which the coin enters into the daily transactions of the people. But these figures seem only to suggest that when India is prosperous, and can afford to import gold, the people use it to liquidate some of their transactions. It is also evident that, without the aid of a local mint, they can command a larger quantity of gold than they require, for the accumulation in the Currency Reserves proves conclusively that the supply is more than sufficient to meet the

\* Receipts of sovereigns at Post Offices and Railway Stations

Years	Post Offices.	Railways.
	£	£
1907-08 - - -	1,358,000	1,045,000
1908-09 - - -	1,001,000	710,000
1909-10 - - -	265,000	134,000
1910-11 - - -	638,000	597,000
1911-12 - - -	1,363,000	1,222,000

demand. On the other hand there seems to be no reliable estimate of the quantity of gold which would be available for coinage. India is of course a producer of gold to a limited extent, but it is understood that her supplies are not available for the Indian mints. And even if she were a considerable producer a mint would not be apparently a necessity, seeing that South Africa—the largest producer in the world—has no mint.

16 As I have already explained, the Committee do not consider that the coining of any gold piece should be at present undertaken in India. To compel the Indian taxpayer to meet the cost of producing sovereigns when the number of these coins already in the country is in excess of requirements appears to them to be an ill-advised policy. To coin a distinctively Indian gold piece, smaller than a sovereign, would be also in their opinion a mistake. The objections to such a coin were clearly defined in the Government of India despatch dated 16th May 1912 (*see* H. C. 495 of 1913, page 57), and they are, the Committee think, conclusive. The mere fact that for a long time to come an Indian coin would have to be treated as bullion when exporting is of itself a convincing argument against the proposal. If the coining of gold is to be undertaken at all, the Chamber would strongly urge that the recommendation of the Currency Committee of 1898 be followed, and that the British sovereign be coined at a branch of the Royal Mint to be established in India.

17 The Committee have not thought it to be necessary for them to deal with a proposal which has been made recently in the course of the public discussion of the currency question. This is that gold should be the principal currency of India, and that silver should be restricted in amount as legal tender. The Government of India definitely stated, in the despatch quoted in the last paragraph, that the coining of gold would not involve any "disturbance of the ordinary course of our recognised and established currency procedure." And although it may be that eventually silver will be restricted as legal tender, that eventuality seems to the Committee to be so far distant that there is no need for the matter to be considered at present.

18 Finally, I am to notice briefly the proposal for the establishment of a central State Bank in India. Those who support this proposal claim that a State Bank would extend the circulation of paper money, that it would make the Government cash balances in India more readily available for the financing of Indian trade, and that it would have other material advantages over the Presidency Banks. It is not the intention of the Committee to discuss these points at present. Nor do they wish to offer an opinion on the project, as at this stage they prefer to keep an open mind. But the questions which will arise in connection with it are of considerable intricacy, and the Committee suggest that, if an authoritative pronouncement is to be made upon it, the Royal Commission will require to take evidence, not in London only, but in the Presidency towns of India also. It is admitted that advantages would result if a great State Bank could be formed by the amalgamation of the Presidency Banks. There are, however, two outstanding difficulties that will obviously require examination. The first is that a central Bank would be unwieldy. In discussing Indian financial questions it must not be forgotten that India is more than a country. It is a continent with many races and communities, who differ widely from each other in their commercial interests and banking customs. And it has been found in actual practice that, from a purely money-lending point of view, the spheres of influence into which the Presidency Banks have grouped themselves leave little to be desired. The second objection is as to the location of the central control. To the Committee of the Chamber it is obvious that the control of such an institution as a State Bank could only be satisfactorily and remuneratively exercised from either Calcutta or Bombay. This side of India would naturally insist upon Calcutta, and Western India would presumably urge the claims of Bombay. The arguments in favour of Calcutta are identical, it may be noted, with those which have weighed with the Government of India in deciding to retain the office of the Head Commissioner of Paper Currency in this city.

19 It will be evident from what has been written that the Committee of Chamber are of opinion that the existing currency system is working satisfactorily, and this being their view they are disposed to deprecate changes which may or may not be calculated to strengthen and to improve it. Their recommendations, briefly summarised, are as follows —

- (a) That the Gold Standard Reserve should be held in London, that no maximum limit should be fixed in respect of it, that a portion of it should be invested in gold securities, or placed on short loan, as at present, and that at least 5,000,000*l* should be held in gold,
- (b) That the existing system whereby the Secretary of State sells Council bills and transfers in excess of his needs, in order to meet the convenience of trade, should be continued,
- (c) That the practice of loaning some portion of the Government balances to bankers, at interest, is reasonable and should be continued,
- (d) That no steps should be taken at present in the way of coining gold—either the sovereign or any other gold piece—in India, but
- (e) That, should it be decided for reasons of sentiment to coin gold, a branch of the Royal Mint should be established in India for the coining of British sovereigns, and that no attempt should be made to introduce any other gold coin into India.

I have, &c,  
H. M. HAYWOOD,  
Secretary.

#### APPENDIX B

*Extract of remarks made by C C McLeod, Chairman East Indian Section, London Chamber of Commerce, who waited upon the Secretary of State with a Deputation on 10th June 1912*

1 My Lord, I must in the first place ask you to accept our grateful thanks for consenting to receive this small deputation from the Indian Section of the London Chamber of Commerce, when we well know how valuable your time is. The deputation is a small one at your request, but is no criterion of the great interest taken in the question. I venture to hope, however, that when we have put our case before you, you will recognise that the question is one of great importance and pressing necessity.

2 The shortage of wagons and rolling stock on Indian railways is not a new phase—it has been more or less acute for the last fifteen or twenty years. It has been the subject of several enquiries, and a very strong case was put before your eminent predecessor, Lord Morley, in March 1907, by a deputation of Chairmen and Directors of Indian Railway Companies, accompanied by a deputation of East Indian merchants from the London Chamber of Commerce. Lord Morley appointed a Committee to enquire into the causes, and increased the allotment to a considerable extent, but the effect was short-lived as we find ourselves in a very much worse position to-day than we were at that time—now fully five years ago.

3 It is very difficult to describe the effects of the present congestion, and the losses incurred all round. In Calcutta the shortage of coal-wagons has been most acutely felt. Many of the jute mills during the last two or three months have had only a few days' stock of coal in hand, whilst steamers often took from seven to twenty days before they were properly loaded with coal. The evidence of Colonel Gracey (who recently visited India, and who is Chairman of the Bengal and North-Western Railway) in a recent speech, is to the effect that he found all the stations choked with goods owing to the want of rolling stock. Such evidence, coming from one possessing his expert knowledge and mature experience, is reliable and conclusive. He considers the railways are losing money, because they are not properly equipped with sufficient wagons and rolling stock. Lord Curzon, during



his term of office as Viceroy of India, was so struck with the force of the arguments put forward by the Bengal Chamber of Commerce, that he deliberately curtailed railway extensions in order to provide more funds for increasing rolling stock and doubling lines

4 The letter of the 21st May last, forwarded by Messrs Ralli Brothers, and signed by a number of important East Indian merchants, acknowledged by you on the 28th ultimo, points out very clearly that the Indian railways are quite unable to cope with the traffic, and that conditions obtaining at present are as bad, if not worse, than they ever were, owing to the scarcity of wagons and rolling stock, and also to other causes which require investigation. We have also evidence by recent advices that consignments of seeds and grain are being refused at stations on the Bengal and North-Western Railway, where their line is already blocked with stocks of grain piled up on the stations, and quite unprotected. A joint telegram was received from the Chambers of Commerce of Bengal, Bombay, and Karachi on the 28th May, a copy of which was forwarded the following day to you. It read as follows —

“Bengal, Bombay, Karachi Chambers earnestly request Indian Section protest energetically to Secretary of State regarding inability of Indian railways to handle traffic. Congestion in every direction and present position deplorable owing to insufficient funds for equipment having been allotted for some years. Largely increased grants for several years indispensable. Consider present method financing railways unsuitable, merchants and trade generally seriously inconvenienced. No immediate relief apparently possible. Question must be dealt with promptly or Indian trade and agriculture will seriously suffer in future. Trade requirements now far ahead of railway facilities.”

Also the following from the Indian Mining Association, Calcutta, on the 14th May 1912 —

“Indian Mining Association heartily endorses your action. Wagon shortage position growing worse, remedial measures urgent, no action yet taken by Government.”

And on the 6th instant from the Bombay Chamber of Commerce —

“Regarding your interview with Lord Crewe, June 10th, reference Administration Indian State Railways. This Chamber strongly emphasises present difficulty as due to insufficient funds having been allotted for equipment, doubling of lines, efficient water supply, larger stations and marshalling yards and increased facilities generally for moving traffic. Abnormal increase number of wagons to be deprecated until railways are equipped efficiently to deal with them. Important question is that lines should be thoroughly equipped for working traffic, and for this largely increased funds necessary over series of years to complete comprehensive programmes. Present supply wagons can do much more work if this is done. Higher interest might be offered for loans for this special purpose.”

5 This is surely conclusive proof, coming from these three great centres of commerce and sent with the full sense of the importance of such a communication, that some strong and prompt measures are urgently necessary. From the point of view of the railways themselves, I would venture to point out that the advantage would be very great, and if I may be permitted to quote the following figures, they will, I think, explain themselves.

6. The average gross earnings for the four years ending with 1896 was about 2½ crores, and loss to the Government was 204 lakhs of rupees. In 1910 the gross earnings reached nearly 5 crores, on the other hand the loss to Government ceased with the year 1901, and since then the gain has steadily risen, and for the last eight years shows, I believe, an average of about 200 lakhs, thus proving conclusively that a generous policy in connection with the equipment of Indian railways would be well repaid.

7 The trade and commerce of India has shown a continuous increase for many years, and there is ample evidence that the facilities for handling it by the railways are now, and have always been, inadequate. I need

hardly point out that this state of things is calculated to throttle growing industries in that vast country, and prevent the natural expansion which is so essential to its prosperity.

8 I may add, my Lord, that opinion is somewhat divided as to whether a large increase in rolling stock would meet the difficulty if it were not accompanied by better facilities for handling the same. I make this qualification as it is well known and understood that "congestion" on railways does not necessarily mean an actual scarcity of wagons, but rather an accumulation of wagons at changing stations and terminal points, which prevents them being made use of up and down the line. The principal causes which lead to this cannot be put down solely to insufficiency of rolling stock, but may be easily accounted for by want of forethought and unpreparedness, by insufficient capacity in the line itself, due to want of sidings to permit of expeditious crossing of trains, or to inefficient watering arrangements, which increases the stoppage of trains at roadside stations, or it may be due to insufficient facilities at terminal points. It is most important, however, to have this point settled definitely. To do this efficiently, it would be necessary in my opinion to appoint experienced special officers to go into the whole question on the spot, and to report fully on this very important point, and I find this view is one that commends itself very strongly to those who are interested. It would be desirable that the reference should be specially directed to ascertaining the methods by which the existing rolling stock may be more quickly handled, as well as the carrying capacity of existing open lines, and to endeavour if possible to form a definite opinion as to the adequacy or otherwise of the rolling stock and present facilities, both for existing traffic or increased traffic that is likely to be handled in the near future.

9 The question of speeding up freight trains would also require looking into, as evidence adduced in Calcutta at a recent discussion showed that the average speed of coal trains was only about 6 miles per hour, and the "Sind Gazette" of the 15th May states that the average speed at which goods trains are now travelling between the Punjab and Karachi is only about 3 or 4 miles an hour. In the meantime we would strongly urge that the number of wagons under orders should be augmented by an "urgent" addition of at least 3,000 wagons.

10 To summarise our requests, they come to this—

- To appoint two or more officers experienced in railway traffic handling to investigate and report as to whether the congestion all over India is due to actual shortage of wagons, or inefficient handling
- To provide an "urgent" supply of wagons as indicated
- To consider the question of reserve wagons
- To consider the advisability of discontinuing extensions of new lines, consolidating available funds towards increasing the efficiency of existing lines
- To consider the proposal by the Bengal Chamber of Commerce as to the quadrupling of the line between Asansol and Bandel
- To consider the quadrupling of the Great Indian Peninsula line from the "Ghats" to Bombay, and providing additional sidings and crossings to facilitate transport into Bombay

This, my Lord, closes my case, and after my colleagues have spoken we will look forward with hopeful anticipation to receiving an assurance from you that we have not approached you in vain.

## APPENDIX C

*Extract of Remarks made by C C McLeod (Chairman, East Indian Section, London Chamber of Commerce), who waited upon the Secretary of State with a Deputation on 2nd June 1913*

1 My Lord, I have again to express to you our great satisfaction for the interest you have shown in this important question of the congestion on Indian railways by consenting to receive a small deputation to-day

2 In order to arrive at the very grave importance of this question, I trust you will permit me to refer to our interview on the 10th June last year on the wider question of congestion all over India, as akin to the smaller, yet no less important, subject to which I shall venture to call your attention to-day in connection with the Bengal coal-mining industry

3 In replying to the deputation on 10th June 1912, your Lordship expressed sympathy with the case as we then put it before you, and we gratefully acknowledge the efforts that have been made in the interval in meeting our reasonable demands. The appointment of Sir Henry Burt as an expert to inquire into the causes of congestion at various centres has given lively satisfaction, and the statement which, with the permission of the India Office, I telegraphed to India last January, that 12 millions would be provided for the 1912-13 programme, also caused general satisfaction, if only as an indication that the important question was being seriously considered and dealt with.

4 But, my Lord, you will pardon me if I state with all sense of responsibility, and based on inquiries recently made by me personally in India itself in February and March last, this annual sum of 12 millions is quite inadequate. Such a sum might have been sufficient had it been available annually from 1907 till now. It is, however, quite insufficient to overtake the arrears in provision of equipment and betterment of open lines and to develop fresh areas. The traffic has increased, and is likely to further increase, to such an extent that provision will have to be made for much larger grants, not less than 15 millions a year should be provided for the next five years if the prosperity of India is not to be seriously hampered and her growing industries throttled. Moreover, my Lord, the manner in which the grants are made tends to minimise their utility so much that the effect of spending large sums within a specified period is partially lost. I refer to the practice of an annual Budget for expenditure within the financial year, and the "lapses" which must frequently occur when the period between the sanctioning of estimates and the conclusion of the financial year is sufficient to enable all the money to be economically spent. I am aware that your Lordship has sanctioned some relief in permitting a portion of the orders for English material and stores to be placed prior to the commencement of the financial year. If, however, this arrangement could be extended, and a programme over a period of three years considered and funds allotted, I feel confident that the Railway Board in India and the Boards of the various Indian railway companies in London would be able to utilise the funds in a much more effectual way, as they would be in a position to arrange in advance for a continuously constructive and expansive policy, which the present system of allotting funds precludes them from doing.

5 The mercantile community in India is alarmed and uneasy as to the result of the statement made by the Financial Member of the Governor-General's Council in reference to the railway programme in his last Budget speech, urging caution in regard to railway expansion and expenditure. In view of the effect such a statement may have on the Home Government, it is my duty to point out that trade expansion in India during the past four years has shown beyond doubt that any such fears are groundless, and it may not be out of place to point out here that if the expansion of Indian exports continues on the average of the past 10 years the trade may easily double itself in about 12 to 15 years, a possibility that requires not only a bold railway policy, but also a bold and far-seeing policy of port expansion to meet it.

6 An instance of this procedure is shown by the announcement made by the East India Railway alone, consequent on the issue of the Coal Conference Report, when the agents of that company authorised their agent in Calcutta to submit to the Government, for early sanction, a revised capital programme covering the financial years 1913-14, 1914-15, and 1915-16, to include the following special additional works and rolling stocks —

10,000 wagons with corresponding number of engines and brake-vans.

The remodelling of the Howrah goods yard, at present at Howrah, to another site lower down the river

The construction of a direct double line from Burdwan to Howrah, having necessary connection with the proposed new coal yard

The doubling of the existing line from Dhanbaid to Katrasgarh

The addition of a third rail, making two down lines from Burdwan to Bandel

They also propose the construction of a large marshalling yard at Bandel and certain other minor works, the whole programme involving an outlay roughly estimated at Rs 7½ crores, or, say, five million pounds sterling

They considered this important programme necessary and if such a programme is sanctioned, and provision made for the necessary funds, an important move in the right direction will have been accomplished. If, on the other hand, the programme has to be cut down for want of funds, the position will become more serious than ever. I have no doubt the same would apply to the Bengal, Nagpur, and other important railways

7 I now come, my Lord, to discuss the question of the memorial, dated 4th November 1912, from the Indian Mining Association in Calcutta. It sets out its own case so clearly that comment from me would only be taking up your valuable time to no purpose, but I would like to emphasise the statements therein contained by adding that they were carefully considered by the leading business men in Calcutta, with a sense of the importance of such a communication, and if your Lordship has had time to peruse the printed minutes of the meeting attached to the memorial, you will, I venture to think, arrive at the conclusion that the demands of the Bengal coal trade are not unreasonable, as the result of the Conference held in October clearly and definitely shows. That Conference was presided over by the President of the Railway Board, with the senior Government Inspector of Railways, the Railway Board Mining Engineer, the Vice-Chairman of the Port Trust, representatives of the largest Indian railways, the President of the Bengal Chamber of Commerce, and two members of the Mining Association. Their report covers 90 pages of printed matter, and embodies no less than 50 recommendations, covering the points of complaints. These recommendations involve large sums of money, and I would especially plead that your Lordship should consider the very great importance which the carrying out of these improvements means to the coal industry, and not only to this industry alone, but to many others which are dependent for their existence on regular supplies of fuel. The memorial has behind it the support of every Chamber of Commerce in India, who recognise that this great industry is being throttled, for want of transport facilities, to which they consider they are entitled. It may interest you to know that the largest railway system in India, the East Indian Railway, derives over 40 per cent of its large earnings from coal traffic

8 There are several further points that require consideration in connection with what I have said. The manganese ore merchants, owing to want of facilities for transport to Bombay, requested a levelling of the transport charge to Calcutta to enable them to utilise that port if opportunity offered, but I understand that the point was not conceded, owing to some opposition from the Bombay side. It is not my province to urge the claims of Calcutta against Bombay, or *vice versa*, but on broad lines it is my duty to mention any points which might tend to relieve the tension on railway congestion. Owing to the cheaper freights from Bombay to Europe, Bombay must always have this trade on equal rail charges, but

I consider it desirable that manganese ore merchants should be allowed to have access at the same charge to an alternative port when the railway leading to the other port is congested

9 Another point that presents itself is the report openly stated that railways on the western side of India have contracted for coal supplies from South Africa, due, it is asserted, to the uncertainty of direct supplies from Indian collieries, and this, your Lordship will admit, is a serious matter to these collieries, more especially as their inability to supply coal is directly due to want of transport facilities

10 I will leave my colleague, Sir Ralph Ashton, to deal with the more technical part of the memorial, as he was Chairman of the Indian Mining Association for many years, and a special member on the Viceroy's Imperial Council when the Mining Act was under consideration

11 It may not be out of place to mention, my Lord, that there is a growing feeling that if some or all of the State-owned railways were made over to companies, who could make their own financial arrangements for increased capital, irrespective of the effect it would have on Government securities, the position might be relieved without material loss of revenue to the Government, a revenue which is annually increasing and assuming very large proportions

12 This was recommended by Mr Robertson, after a full inquiry into the system of railway management in India, and again emphasised by the Committee appointed in 1908, under the presidency of Sir James Mackay (now Lord Inchcape)

13 We are fully aware of the difficulties Government have in arranging finances on the considerable scale that the very necessary reforms on Indian railways require, but we hope and trust that a special effort will be made to meet these demands liberally, in order to avert the danger that is now threatening the many growing industries in India generally, and the coal trade in particular, which is so acutely dependent on railway transport

14 I would like to add that I received the following telegram from Calcutta on Saturday —

“Since presentation of memorial there has been no substantial improvement in wagon supply. Consequently stocks of coal at collieries are heavy. Railway Board meantime purchasing foreign coal largely for this and next year. It is rumoured that scheme for development of railway-owned collieries is to proceed.”

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## APPENDIX XXVII.

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STATEMENT OF EVIDENCE SUBMITTED BY MR THOMAS SMITH, CAWNPORE  
INDIAN EXPERIENCE EIGHTEEN YEARS, FOR SEVENTEEN OF WHICH HE WAS AGENT  
OF THE ALLAHABAD BANK, LTD., AT CAWNPORE AND CALCUTTA  
A FORMER VICE-PRESIDENT OF THE UPPER INDIA CHAMBER OF COMMERCE,  
CAWNPORE

### I—Balances

1 During the years 1910, 1911, and 1912 the balances in London were abnormally high. That they were deliberately accumulated, as has been wildly suggested, for the convenience of the London Money Market or a certain interested section, and to the hurt of India, no reasonable person will allow

2 These balances accrue under conditions difficult to gauge, and, in the case of loans raised, may represent a large temporary addition. Keeping in

view the complexity of regulating them, the only criticism of importance that I would offer is that the India bills paid off in December 1912 might well have been paid earlier

3 When the balances were at their highest, in June 1911 and June 1912, India can scarcely be said to have suffered any hardship, for none of the money was wanted there, and could not have been employed in the dull season, while in London a rate can always be obtained

4 It is possible, however, that in the busier months in India a portion could have been employed to better advantage than in London and for the future such investment is worth trying I deal with this later under the subject of Banking

5 Between the very low balances of a little over a million following the crisis of 1907-08, and the very high balance of 19,000,000*l.* in June 1911 and 1912, there would seem to be a happy medium which it should be the aim of the India Office to achieve

6 So far as the balances in India are concerned, they appear to have been more or less normal save in 1913, when they were exceptionally high

## II—Banking

7 I do not favour the creation of a Central Bank in India The size of India is against the efficient working of such a bank As Sir T W Holderness observes India is a continent, not a country, and a continent of infinite variety It is not one country as we know countries in Europe, but many countries It is larger than Europe without Russia

8 Three of these "countries" may be said to be Bengal, Bombay, and Madras, where the Presidency Banks have located themselves, and it may truly be said that the nature and the business of each is of "infinite variety" Each has a distinctiveness of its own, the rate in each is often different, *e.g.*, on 2nd July the rates were 4 per cent, 5 per cent, and 6 per cent respectively † Each aims at the needs of its particular sphere, and all three banks have prospered In their separate working they have developed along their own lines, with an intimacy born of a specialised study of their own sphere, they have adapted themselves to new opportunities, and all for the best The prosperity of each has been an incentive to the other This healthy rivalry would be lost in a Central Bank, nor would the control of a Central Board, even with sub-boards in each Presidency, be as efficient as at present Initiative and the sense of responsibility are more likely to be prominent in a separate and independent board

9 In 1867 the need for a State Bank was advanced We have got on very well without it and so have the banks themselves Since then their capital and reserves have more than doubled, while their deposits are six times what they then were

10 In 1898 the proposal was again revived, when it was urged that such a bank was necessary for "the success of the recommendations of the Currency Committee" As the carrying out of these recommendations has been handled with ability by the officers of Government under difficult circumstances, and is being adequately performed under present arrangements, the case for a State Bank has not been made out

11 I consider the existing banking facilities capable of adequate expansion on present lines The growth of banking deposits in the Presidency, Exchange, and Joint Stock Banks in the ten years ending 1910 from 23,646,000*l.* to 51,875,000*l.*, or at the rate of 132 per cent, is evidence of expansive power It is a hopeful sign to see money in the country flowing freely to the banks for investment The increase, too, has been achieved in spite of a reduced rate of interest allowed by the banks, varying from  $\frac{1}{2}$  to 1 per cent. in the case of the Presidency, Exchange, and the larger Joint Stock Banks Banking in India is yet in its infancy, and with the great industrial awakening greater developments must be looked for. But there is one dark spot: mushroom

\* Pages 13-15 of "Peoples and Problems of India," by Sir T. W. Holderness, K.C.S.I., published by Williams and Norgate in the Home University Library

† Since reduced to 3, 4, and 5 per cent.

institutions calling themselves "banks," with excessive nominal share capital but little paid up, have been springing up with amazing rapidity. Writing to the Upper India Chamber of Commerce in 1910 urging legislation, I said of them—"They are 'banks' only in name, and are trading on the confidence of the depositor who is little versed in money matters but is attracted by the name 'bank' and wishes to earn some interest on his small store. They constitute a real danger, because if one fails others will follow, and the timid depositor, unable to discriminate between the sound and the unsound concerns, will make haste to get back his money from whatever bank it is in, and his confidence in banking institutions, thus rudely checked, will take years to win back."

12 Addressing the Sixth Industrial Conference at Cawnpore last year, I spoke at greater length of these "banks" and the need for banking legislation. A copy of the address, taken from the "Pioneer," is appended for reference (see page 618).

13 Legislation seems assured and it will not come a moment too soon. With it we may look for a more healthy development of joint stock banking in India, and, if I mistake not, a continuous growth in the banking capital available for the development of the country's industries.

14 The Exchange and the better Joint Stock Banks may very naturally view with suspicion the establishment of a Central Bank. They are fulfilling an important rôle in financing the trade of the country, and the interposition of a Central Bank would conceivably arrest their progress.

15 Below are the deposits and rate of increase for the decade ending 1910—

	1901	1910	Rate of Increase
	Lakhs of Rs	Lakhs of Rs	Per cent
Presidency Banks - - - -	1,463	3,234	121
Exchange Banks - - - -	1,183	2,431	105
Joint Stock Banks having more than 5 lakhs capital and reserves	900	2,566	185
Rs	3,546	8,231	

16 In consequence of the high bank rate in India at certain seasons of the year, it is sometimes urged that banking facilities are insufficient. But it is too often forgotten that for as many months in the year money is a drug on the market, and bankers' swollen balances are a nightmare to them. Temporary borrowers must expect to pay for their finance in the busy season, for they only make use of it for the short time that it suits them, and then throw it back on the banks. A steady borrower all the year round can get his requirements in the vicinity of 6 per cent, which does not compare at all unfavourably with the same borrower from the home banks. In well banked Scotland, the average rate for overdrafts during the last three years has been 5½ per cent. The average rate of the Bank of Bengal is usually about 6 per cent. At present the rate is 3 per cent as against the Bank of England rate of 4½ per cent, while in Scotland the rate for cash accounts has been 6 per cent since 17th April last. Rates for steady advances in India have fallen 1½ to 2 per cent in my experience of 18 years, while the interest allowed on deposits has fallen, generally speaking, 1 per cent.

17 Relief to the money market in the busy season would be afforded by loans to the banks from the Government reserves and balances, but a Central Bank is not needed for this. It might be convenient to fix a limit of Rs 5 lakhs as the minimum amount to be loaned, any bank depositing sufficient Government securities to be accommodated, the loans not to exceed three months, and to carry interest at a rate to be fixed by Government from time to time, but approximately 5 per cent.

18 In a measure the sale of Council bills in excess of the Secretary of State's requirements gives relief in this respect, but at the same time it should be possible to borrow direct in India. Government have expressed

the view that such loans are not advisable, as (1) borrowers might default and the sale of securities might injure the annual Government loans, and (2) the calling in of large loans might be difficult and dangerous. These seem to be mistaken fears, with the class of borrowers contemplated, there would be little possibility of default, or of Government loans being jeopardised, and as the advances would be time advances the banks would regulate their arrangements accordingly.

19 I see no necessity for any change in the conditions now prescribed for the Presidency Banks. They can make a fairly wide use of their present limitations. Some years ago they sought access to the London money market, but general opinion was against this.

### III—*Capital Expenditure*

20 I think more loans might with advantage be raised in India. Roughly, only half of the rupee debt is held by Indians, politically it would be good if they had the opportunity of holding more, and the raising of more loans in India might have this tendency. But I do not consider that India could provide more than an occasional loan of, say, 4,000,000*l.*, in addition to the annual loan of roughly two to three crores, while for larger borrowings at any time London must be looked to. Unfortunately during the last 10 years India Stock has shown a rapid decline, 3½ per cent. Stock having fallen from 109 in 1903 to 87 in 1913. Much of this must have been in sympathy with the fall in Consols and other gilt-edged securities, some of it may have been due to "unrest", or it may be that we have been asking London for too much. I have not the latest figures available, but am under the impression that in the last 10 years, say, borrowings in Stock have increased at twice the percentage of rupee borrowings. If that be so, further issues of moderate amount might be tried in India.

### IV—*Sale of Council Bills and Transfers*

21 I approve of the existing practice in regard to the sale of Council bills and transfers. These sales work smoothly, they satisfy the requirements of trade, in that rupees and notes which are required in India are released there against gold paid in London, and they are economical, inasmuch as they obviate the expense of the actual export of gold from London, and its subsequent re-export from India.

I do not favour the transfer of the business of exchange to a Central Bank.

### V—*Exchange Value of the Rupee.*

#### (a) *General*

22 The fixing of the rupee at 1*s* 4*d* has been of benefit to the trade of India, and the enormous increase in trade must in large measure be attributed to the fixity of exchange. The ruin which it was thought by some in 1898 would overtake tea, cotton and opium, has not yet come about. The tea industry has prospered, cotton mills have increased 40 per cent in number and capital, while opium is dying by other means than exchange. Fixity of exchange has justified itself. I do not favour a return to the free coinage of silver.

23 The large sums of gold annually absorbed by the Indian public may be regarded as proof that much of this is passing into hoards. In the last 10 years about 70,000,000*l.* in bullion and 57,000,000*l.* in sovereigns seem to have passed into the hands of the public. How many of the sovereigns remain in circulation it is difficult to say. Circulation is increasing, but the increase is more marked in the Punjab, I think, than elsewhere. In the busy season my experience is that remittances from Cawnpore to Delhi are in sovereigns only. In Cawnpore they pass freely. I remember in 1899 or 1900 when they were generally at a discount of two to four annas, but the Cawnpore bazaar in the main takes rupees. I have noticed, however, that sovereigns sent to a cotton district in the United Provinces do not return. Presumably, after payment of revenue, &c., the cultivator retains the balance,



being his profit, and hoards them as was suggested by Mr. Gillan in one of his reports. Ram Bux is probably beginning to realise that his savings are better held in sovereigns than in silver rupees, and I think there is little doubt, as Mr. Gillan further suggests, that many sovereigns go into the melting pot. They can be more readily got than gold bars and in smaller quantities than bars, and their weight and value are known. Indians have told me that they like sovereigns for these reasons and because the alloy in them gives the ornaments a durability exceeding pure gold.

24 The sale of Council bills at 1s 4½d per rupee must tend to keep gold from coming to India. In so far as this diminishes the supply of gold in India available for the public demand, and in so far as that demand is for circulation and cannot be met, the action may be said to keep gold from circulating in India.

25 On the whole I favour the opening of a mint in India for the free coinage of gold. I believe it to be one step further in the development of our currency system. I am in agreement with the views of the Government of India on the subject. I do not approve of a 10-rupee gold coin, it would be little bigger than a half-sovereign, and this coin does not find favour in India. The coin to be minted should be a sovereign identical with the British sovereign.

(b) *Gold Standard Reserve*

26 I concur in the necessity for a special Gold Standard Reserve. On no account would I favour, at present, the use of the profits on coinage for ordinary or capital expenditure. The prudent course is to utilise these profits in strengthening the Reserve, and no diversion of these profits to any other purpose should meantime be countenanced. Anything that strengthens the Reserve conduces to the stability of exchange—the supreme object to be kept in view. The stronger the Reserve, the less need would there be of recourse to a special loan. Such a loan would indeed go badly in a crisis like that of 1907-08 and India would suffer.

27 I would place no limit at present up to which the Reserve should be accumulated. Ten years hence or so Indian currency affairs will most probably again come under review, and it will then be time to take stock of the position and say whether the Gold Standard Reserve is sufficiently high. Till then, I would let it go on being steadily added to. If there be error in the treatment of the Reserve let it be on the side of safety.

28 I do not approve of the diversion in 1907 of over 1,000,000l from the Reserve towards railway development. For the reasons stated above I think it was wrong. It was contrary to the explicit recommendations of the Fowler Committee. That it was retrograde is shown by the fact that such a diversion has not been repeated. The mistake should be wiped out by a re-transfer to the Reserve. The Reserve should be held partly in gold and rupees and partly in securities. The balance on 31st May last was over 22,500,000l, of this, under 1,750,000l was held in gold, and 1,000,000l at short notice. In my opinion these amounts are too small. About 16,000,000l was invested in British and Colonial Government Securities and Corporation of London Bonds. I consider this too large, and in proportion to the total fund it is excessive. Circumstances might necessitate the sale of a considerable portion at a most awkward time, with resultant loss. Probably the desire to earn a larger interest on the Reserve has actuated these investments, but interest is of secondary importance.

29. I would suggest that the Reserve be held as follows —

Half in gold or rupees, the bulk to be held in London in gold only, while gold or rupees may be held in the Indian Branch, as circumstances warrant.

Half to be invested in securities, short loans, &c, in London, but, preferably, in short loans.

30 The silver branch of the Reserve has, I think, been justified, and in normal times it can be kept at a moderate limit, but the bulk of the fund should be held in London. It is there that it is wanted, for the maintenance

of exchange, and it is there that it will be required in a time of stress. The Secretary of State has it at hand for his requirements when exchange is against him, and, on the other hand, it is available for Calcutta drawings on him, thus obviating the necessity for the actual export of gold from India, if the bulk of the Reserve was located there.

31 The gold held in London should be ear-marked at the Bank of England.

(c) *Paper Currency Reserve*

32 With the growth in the Note issue—the circulation having doubled in the last 12 years—I consider the invested portion might with advantage be increased beyond the 14 crores now prescribed. Instead of increasing periodically by stated amounts, as has been done in the past, I think it might be provided that one-third of the total note issue may be held in securities. On present figures this would mean an increase of the invested portion by 50 per cent. This extra investment to be in sterling securities, and, preferably, in loans in India to banks in the busy season.

33 I do not think it would be expedient to attempt to fix the relative proportion of gold and silver in the metallic portion of the Reserve. Sir Edward Law, in his Memorandum of 1904, gave it as his opinion that, roughly, one third of the Reserve should be held in rupees, but in the years 1908-10 this proportion was exceeded, and rose to two-thirds and over. Accumulation of gold must take place at times when silver is in demand, since Government undertakes to give Rs 15 for a sovereign. The location of part of the Reserve in gold in London is justified by the advantages it possesses.

34 I do not favour handing over the Paper currency to a Central Bank. For banking purposes I consider that such a bank is not at present required. Still less is it needed for the control of the currency, which has been efficiently managed by Government. If it is the intention that such a bank should issue the notes, I venture to think that these would not for many years carry the confidence which the existing "Sirkar's" notes do, and the recent marked development in note circulation might be seriously checked.

(d) *Purchases of Silver*

35 It would probably be beneficial in the long run to make regular purchases of silver throughout the year to meet normal demands.

36 Coinage would appear to have been excessive during 1906 and 1907. The heavy demand for rupees in 1905 in some measure justified the large coinage of 1906, but the same justification does not appear to exist for the activities of 1907.

VI—*Financial Organisation and Procedure of India Office.*

37—(1) The practice of placing deposits with certain "approved Banks" has a tendency to single out and "hall-mark" these banks. Would it not be possible to widen the range of competition and put all on an equal footing by requiring security for the deposits? The rate received would probably be less, but this might be negligible by reason of the wider competition.

(2) Could deposits and short loans not be made direct by the India Office on some such principle as the sale of Council bills? When the Secretary of State has money to lend he could notify it and receive applications. The rich emoluments of the Government broker—14,723l. in 1910-11 and 8,615l. in 1911-12—who is not even a whole-time official, must make many a hard-worked civilian sigh for such a paradise.

(Sd) T. SMITH.

## NOTE TO THE EVIDENCE OF MR THOMAS SMITH

Extract from "The Pioneer" of 12th April 1912

## THE SIXTH UNITED PROVINCES INDUSTRIAL CONFERENCE, CAWNPORE

*Banking*

A notable paper was read at the Cawnpore Industrial Conference on the 8th instant by Mr T Smith of the Allahabad Bank, who strongly urged the necessity of legislation as a check upon the mischiefs brewing in the multiplication of mushroom banks. He said—

2 As many of you know, the decision to include a discussion on banking in to-day's proceedings was only arrived at a few days ago. My remarks, therefore, must necessarily be in keeping with the briefness of the notice I received. There is perhaps no subject more closely identified with industrial development than the subject of banking. It is to the banks and bankers that industries must mainly look for their finance, and accordingly as money flows freely to the banks so will industries profit thereby. It is surely of high importance that our banks, who are the money gatherers and distributors, should command the highest confidence, that by pure and sound management they should offer the best security to their depositors and shareholders alike; and that implies lending on the best security to borrowers. It is in its two-fold duty to shareholders and depositors that a bank differs from a trading concern. The latter asks the confidence of the shareholders only, and the law now recognises that something more must be done to protect him. The Company's Act is now being revised and it is hoped that when passed into law "fools and their money" will be less easily parted. Special legislation has also been undertaken for insurance and provident societies, and most will agree that it has come not a moment too soon.

3 But what of the banking depositor? The insurer pays only his small monthly or yearly premium, and, if things go wrong, he can "cut his loss" and run. But the banking depositor may be staking his all—his savings of a lifetime. I am not speaking of the big, wealthy man, for he has generally other interests and can find other avenues of investment. I am thinking of the comparatively poor and uneducated man who looks round for an outlet for his savings and for a little interest on his store. He is attracted by the name "bank," and probably tempted by the high interest offered, and puts his all into something calling itself a "bank," but which in reality is only so in name. He is the man who deserves our pity. But why not give our protection first? It is to be regretted that the Government has not seen fit to deal specially with banking legislation. They admit the need but confess the difficulty. Signs are not wanting that the need is becoming more clamant, and the days before us will give volume to the cry.

4 We can see that the difficulty of legislating is great, but can also—and more clearly—see that the danger of not legislating is infinitely greater. If we turn to the figures, we find that the banking deposits in the Presidency Banks, the Exchange Banks and the Joint Stock Banks having over 5 lakhs of capital and deposits have increased in the last decade from 21,000,000*l* to 49,000,000*l* or by 133 per cent, while the capital and reserves combined have increased by 2½ million and stand at 7,000,000*l*. This is very gratifying and we trust is only a very modest earnest of the increase in the next ten years. But what does it amount to? These figures for the whole of India are eclipsed by individual banks in England. To take one only—Lloyd's Bank—they have a capital and reserve of about 7,000,000*l* and deposits of 84,000,000*l*, while the figures for the whole of India are only 7,000,000*l* and 49,000,000*l* respectively.

5 India, therefore, follows afar off, but she need not despair. Our banks have made and are making good progress. Some are well on the way and passing their milestones quickly. There are sturdy followers coming along and increasing their pace, but I fear there are many weaklings also who will not go far, and indeed, should never have started. It is these maimed and

decrepit ones who are blocking the way and must impede the pace. Many of them may be classed as cases of bad livelihood and handed over to the police. Unfortunately their numbers are growing, and we would like to see legislation which would render their existence impossible. They prey upon the innocent and are a snare to the unwary, and in a country like this, where so many are in ignorance of banking and commercial matters, there is all the more need for safeguarding the interests of the depositor. He needs it more than the shareholder, who generally speaking is a better informed man, and can generally be trusted to look after himself. The fear is that when disaster overtakes these so-called banks, the timid depositor, unable to discriminate between sound and unsound concerns, will make haste to get his money back from whatever bank it is in, and be chary of ever trusting his money to banking institutions again, and so the flow of deposit capital available for financing the country's industries may be seriously retarded.

6 The provisions of the new Act will help in certain matters, but we would like to see, as I have urged elsewhere, separate banking legislation defining what a bank really is, or at least making clear that an institution has no right to the name of "bank," and should not be registered as such which undertakes coach-building, thala and ekka repairs, medical attendance, the manufacture of soap and oil, and "certain things," from machinery, or engages in trade or manufacture of any sort, even though it be, as I saw it stated with great comprehensiveness in one prospectus, "the leasing or hiring or purchasing of all commodities and substances which can form the subject of purchase or sale."

7 The principle of a compulsory deposit has been accepted in regard to insurance companies. How much more necessary is it in the case of banks!

8 There should also be a compulsory provision for reserves, which would strengthen the security of both shareholders and depositors, restrictions as to investments, also, restricted transfer of shares for two or three years after starting, which would be an earnest of the faith and confidence of the promoters in the soundness of their scheme.

9 I have been brief, as I promised one word more, and I have done

Legislation may accomplish much, but much also may be done by you, gentlemen, towards the sound development of joint stock enterprise. As men of light and leading, you exercise great influence in your respective communities. You have achieved distinction in your own professions. Your names carry weight. See to it that you do not lend them idly to schemes and concerns that you know nothing about. Your name on the directorate may lure others to put their money in. Too much of this is evident at the present time. A concern is started, and there is much rejoicing at its birth. Everyone wants to proclaim himself the father of it, but, in a few months, the paternal interest wanes, and the poor weakling sickens from inattention, and dies. With difficulty the fond parents can be got together to give him decent burial and report his demise to the registrar, according to law. Too often it is forgotten, or not realised, that directors have responsibilities. Let me, gentlemen, as a humble toiler and well-wisher of the joint stock movement, say, it is not sufficient to give your name, though that, as I have pointed out, means a lot and may involve others in disaster. You must give more. You must give the best of your energies and judgment; you must count the cost, and see that you have the capital to meet it, you must get the best management, and not sacrifice the shareholders' interests by putting in a figurehead, merely because he is a friend of your own; you must never forget your trusteeship, and the duty it entails.

10 These, if you will allow me to say so, are some of the main defects observable to-day. They are telling their own tale, and are checking the progress of joint stock enterprise in the healthy development of the country's industries, which we have all so much at heart.

Surely it is time to profit by past failures and to rise to better things!

(Signed) T SMITH.

## APPENDIX XXVIII

MEMORANDUM OF EVIDENCE SUBMITTED BY MR M R SUNDARA IYER,  
SECRETARY TO THE MADRAS ECONOMIC ASSOCIATIONA -- *Indian Currency System.*

1 The suggestions made for the reform of the Indian currency system can be grouped under three heads —

I — Indian mints to be thrown open to the free coinage of silver as it existed before 1893 and India to revert back to silver monometallism

II — Indian mints to be thrown open to the free coinage of gold by the establishment of mints in India and silver to be reduced to the position of subsidiary currency. It is expected that this measure will lead to a large circulation of gold currency, resulting in a currency system similar to that which prevails in England and other advanced countries of Europe

III — The present system to continue with certain modifications

2 It is unnecessary to discuss here at length the first of these proposals. It has been fully discussed by the Fowler Currency Committee\* and the Committee concurred with the Government of India in the opinion that it would be unwise to re-open the mints to silver coinage.

3 There are two considerations (they are mentioned by the Committee) which make it impossible for India to go back to a silver standard —

Firstly the fact that four-fifths of the foreign trade of India is with gold standard countries, and so it is desirable that India should have the same measure of value as these countries.

Since that was written, the foreign trade of India has increased and some countries that had a silver standard then have now adopted a gold standard, and it is all the more necessary that India should not have a different standard from the other countries.

Secondly the report states that the establishment of a gold standard is the simplest and the most effective means of attracting capital. India stands more in need of British capital than it did 15 years ago. Recent figures of the London Money Market show that British capital is not flowing freely into India owing to causes which are too numerous to mention here. With the growth of the means of communication, the wide diffusion of commerce and the higher rate of interest offered by several of the Colonial Governments, capital is becoming more cosmopolitan and large sums are being invested in countries like South Africa, Argentine, &c. It is with the greatest difficulty India is able to raise in the London market all the money which she needs. Under such circumstances no one will seriously suggest the alteration of the standard into silver which will effectively prevent any money coming into India.

4 The second proposal, that the Indian mints should be thrown open to the free coinage of gold, has been very much discussed of late. The results claimed for this measure are so many that it is no wonder that many think that the free coinage of gold is the only solution of all the currency and financial difficulties of the Government of India. It is predicted that the following benefits will accrue once the mints are thrown open to the coinage of gold.

(1) There will be a large circulation of gold currency in the country.  
(2) India will have the same system of currency as prevails in England and other advanced countries of Europe and India will no longer be "a backward country with a primitive currency system."

(3) This measure will put an end to the State-managed currency system and Indian currency will be free from governmental control.

"India," says the mover of the resolution before the Viceregal Council, "is the only great country in the world, barring China, the

\* C 9390, page 5, para 17 et seq

“ management of whose currency is completely in the hands of  
 “ Government. However well managed it can never be as good  
 “ as an automatic currency which adjusts itself to public demands  
 “ After the mints are opened all the State will have to do is to  
 “ pay rupees in exchange for gold coin ”\*.

5 This resolution was seconded and supported by many other speakers in the Council and many seem to believe in the statement that the opening of the mints in India to the coinage of gold will lead to an automatic self-regulating currency system as it prevails in England with gold as the principal circulating medium and silver as a subsidiary currency.

6 Somehow or other neither the mover of the resolution, nor the Hon. Mr. Webb, who has been agitating for the same measure, explain how this measure will lead to the results which they anticipate.

A currency system with a large amount of gold currency in circulation without much governmental control as it prevails in England is one to be desired, though Mr. Fisher thinks that such a standard is not stable and that the recent rise of prices in England and other troubles are due to the gold standard.

If we have to begin a currency system *de novo*, gold monometallism may be the most convenient of all systems.

But how can a currency system which has a circulation of 180 crores of rupees and 60 crores of notes be converted into gold monometallism as it prevails in England? For a very long time to come, at least for a half-century, silver will have a larger circulation and gold currency will occupy only a very small proportion in comparison with the silver currency. If any gold is forced into circulation it will be immediately exchanged for silver.

7 Such a system can certainly not be automatic as the 180 millions of token rupee coinage will certainly require State management. So long as the token rupee and the notes are in circulation, so long the State must regulate the currency, and the rupee coinage and the notes will be necessary for a very long time to come.

In India for a long time to come gold can never occupy the position which it occupies in England. The multitude of transactions that must be settled with money of smaller denominations are so many that silver coins, rupees and its fractions, will always be convenient and will always be used in India. The gold coins will bear only a small proportion to the total mass of silver currency. All transactions will practically be in silver and the simple expedient of throwing open the mints will never ensure a large circulation of gold currency.

Secondly, in almost all the European countries where the legislature declared gold coins to be legal tender and standard of value, these countries had a very large stock of gold coins and very little of silver. Gold was principally the standard, and what the Governments did was to legalise gold payments by declaring gold legal tender and restricting silver coinage. In India the conditions are exactly the reverse.

8 Whatever period of its currency history one may examine, the silver imports and silver coinage were more highly excessive than the gold. Though the imports of gold were very high, the percentage of coinage was very little even during the periods when the mints were open to gold coinage. Of the total imports of silver a very small percentage was coined and of the coinage very little remained in active circulation. The following figures will explain my arguments.—

9—(a) In England gold currency was made the legal tender and sole standard of value in 1816. The coinage of silver was restricted in 1798 (38 Geo. III c. 59). The gold and silver coinage before 1816 stood thus—

Years.	Gold Coinage	Silver
1790-1815	£ 22,642,561	£ 1,640,000

In 1792, six years before there was any restriction of silver coinage, Lord Liverpool estimated the gold currency at 30 millions sterling and the silver currency at 3,960,000.

\* See Gazette of the Government of India for April 6th, 1912, Part VI., page 569.

The currency reform was very simple and the Government had simply to give legal sanction to the existing conditions

(b) The gold and silver coinage of France, some twelve years before the suspension of silver coinage, stood thus —

Years	(Millions of Francs)	
	Gold	Silver
1853-1864 - -	4784	137 ( 900 fine) 7 ( 835 fine)

Mr James Wilson in his minute on a gold currency for India, dated 25th December 1889, stated that since 1850 a sum equal to 130 millions sterling of gold has been coined at the French Mint and a corresponding amount of silver exported. At the time when the coinage of silver was suspended, on April 25th 1876, the Bank of France held in Paris 55 millions in gold and 21½ millions in silver and the coinage stood thus —

Gold	-	-	-	200 millions
Silver	-	-	-	80 millions
Notes	-	-	-	106 millions.

*Bullion in the Bank of France.*

	000,000 omitted	Gold	Silver
1863	-	119	72
1865	-	238	208
1870	-	429	60
1875	-	1168	504
1876	-	1379	546

It is unnecessary to discuss the currency history of other countries, but in almost all the countries, the stocks of gold bullion and of gold coins were very large as compared with silver

10 In India on the other hand, ever since the currency of the country was put on an uniform basis, the currency has been silver and the gold coinage absurdly small in proportion to the silver coinage. Silver and silver alone has been in demand for currency purposes and in spite of successive measures gold could not be got into circulation permanently. The figures from 1801 till recent years (which I have given below) will prove my statement. The result of such conditions is that India has been left with a very large mass of rupees in circulation. The silver circulation has reached as high a figure as gold in the European countries and what was easy in England or France is not possible in India and the minting of gold coins in India will certainly not bring about the desired result. In India till 1835 both silver and gold coins were legal tender and gold coins were received in the treasuries till 1853.

The figures for the silver and gold coinage stood as follows —

Years.	Gold Coinage	Silver Coinage
1801-1835 - -	₹ 11,060,148	₹ 63,631,833

These figures show the active circulation of gold during a period when gold was coined freely, a period which has often been referred to, to show the popularity of gold coinage.

In 1864 a notification was issued that sovereigns and half sovereigns will be received as equivalent to 10 Rs and 5 Rs at the public treasury and on the 28th October 1868 the rate for the receipt of sovereigns and half sovereigns was raised to 10½ Rs and 5½ Rs.

11 The following figures show the imports of silver and gold into India and their coinage in India after the notification of 1864 —

Year	Net Imports into India		Coined in India	
	Gold	Silver	Gold	Silver
1865-66 - -	5,724,476	18,669,174	17,665	14,501,049
1866-67 - -	4,188,195	7,936,693	27,725	6,118,857
1867-68 - -	4,607,329	6,157,989	21,534	4,313,285
1868-69 - -	5,159,352	8,601,022	25,156	4,207,031
1869-70 - -	5,592,117	7,320,337	78,570	7,455,281
1870-71 - -	2,282,122	941,337	3,994	1,606,751
1871-72 - -	3,565,344	6,532,376	15,412	1,735,288
1872-73 - -	2,543,363	715,413	31,795	3,930,751

In 1893, by notification, dated 26th June, sovereigns and half sovereigns were declared receivable at Government treasuries at the rate of 15 Rs and 7½ Rs and by Act XXII of 1899, passed on the 15th September 1899, sovereigns and half sovereigns were declared legal tender

While the circulation of rupees rose from 149 to 166 crores between 1893 and 1899, the circulation of sovereigns was nil, though the imports of sovereigns were very large —

Year	(In Rupees 000 omitted)	
	Imports of Sovereigns	Circulation of Sovereigns
1894-95 - - -	68,96	—
1895-96 - - -	1,71,83	—
1896-97 - - -	1,79,56	—
1897-98 - - -	2,61,95	—
1898-99 - - -	4,53,44	—

In 1899 the sovereigns were declared legal tender and though the imports of sovereigns were as heavy, the circulation of sovereigns was nil for four years

Year	(In Rupees 000 omitted)	
	Imports	Circulation
1899-00 - - -	7,98,56	—
1900-01 - - -	6,96,63	—
1901-02 - - -	7,15,07	—
1902-03 - - -	8,71,88	1,38,67

Let me contrast with this the rupee circulation for a period of 20 years before the closing of the mints when silver began to fall in value. —

Years	Rupee circulation	Crores of rupees.
1873-74 - - -	- - -	101
1878-79 - - -	- - -	118
1883-84 - - -	- - -	119
1888-89 - - -	- - -	133
1889-90 - - -	- - -	135
1890-91 - - -	- - -	139
1891-92 - - -	- - -	141
1892-93 - - -	- - -	149

12. The rupee circulation just before the closing of the mints stood at 149 crores and the average annual addition was 7 crores.

The mints were closed in 1893, and various agencies were employed to contract the circulation. But in spite of all these the rupee circulation could



not be restricted. The average annual addition to the currency when the mints were open was about 7 crores. It was hoped that the stoppage of an annual addition of this magnitude to the rupee currency and the gradual contraction of the currency which always, under the operation of ordinary causes occurs, such as the withdrawal of coins reduced below the current weight by wear and tear and the loss or disappearance from circulation of coins, would, in the presence of the increasing demands of a continually expanding trade, suffice to remove the increase of coinage.

The Secretary of State suspended his drawings and withdrew 10 to 11 crores.

In spite of all these efforts the circulation of rupees increased.

By 1895 the circulation increased to 150 crores, in 1897 to 153 crores and 1899-1900 166 crores, 171 crores in 1902, 188 crores in 1903, 200 crores in 1904 and 242 crores in 1908.

This fact alone is enough to show that it was the silver currency that is wanted for circulation, and could not be restricted whatever stringent steps may be taken. It is impossible to do more than what was done in 1893, and certainly the rupee coinage cannot be displaced by the minting of sovereigns.

13 The result of it is that India has got a large amount of rupee circulation while the proportion of gold circulation is very very small. The conditions are exactly the reverse of that which prevailed in European countries while gold was being made the sole currency and standard of these countries. Under such diametrically opposite conditions it is not possible by opening the mints to gold coinage, to have a gold currency.

14 *Absorption of Sovereigns*—It has often been asked what happens to the very large amount of sovereigns imported into India. It has often been stated that they go into hoards. Every European economist who has bestowed any attention to Indian economic questions has found this a convenient explanation for every phenomenon that is unaccountable. Every Finance Minister thinks that if the hoards are unlocked, India's economic prosperity is assured.

In the first place it is extremely doubtful whether there is any hoarding or at least there was any hoarding to the extent generally supposed to exist. No one would hoard the token coinage (rupees) and I do not think in the treasure troves that have been found any rupees have been discovered or even sovereigns. The absorption of sovereigns is in a different direction. Last year, I visited a number of the Mofussil branches of some of the Presidency Banks and also examined the day-books of many of the native Shroffs. Mr Hunter, the Secretary of the Bank of Madras, might have told this commission that every week he sends a very large amount of sovereigns but none of them come back into the course of circulation. I set out briefly the social and economic conditions which bring about the absorption of the sovereigns. These conditions will exist for a very long time to come, and will continue for many more years, and so long as these conditions last, sovereigns will be absorbed in increasing quantities, and the amount that will be absorbed is unlimited. Western civilisation and increased material prosperity tend to increase this absorption of sovereigns rather than diminish it as many people seem to expect.

15 † A Hindu according to the law at present administered in India cannot alienate, either by will or by gift *inter vivos*, any portion of his property immovable or movable to provide for his wife daughters or sisters or the female members of the family. The son as soon as he is born gets an interest in the property and he can impeach such alienation. In many cases alienations have been impeached 20 or 30 years after they have been made. This rule applies even to Government promissory notes, bank certificates, insurance policies, &c.

Hitherto the women used to be left to the tender mercies of the joint family and the wife of the head of the family who was in enjoyment of every possible luxury which the head of the family could afford could claim after

\* There was also an exportation of Rupees 2 crores.

† This rule applies to ancestral property, but the distinction between ancestral and self-acquired is very slender.

his death only 7½ to 15Rs for maintenance a month (half to one sovereign for a month). But the daughter and the sisters of the late head of the family were not entitled even to that pittance. The only way the strictness of the law is evaded at present, is by presenting the ladies with jewels which become their personal property which the other male members of the family cannot claim as family assets. In the case of the daughters of the family from their birth to their death presents are made on various occasions, presents of sovereigns or jewels. By the time of the marriage of the girl, which happens in the 12th or 13th year at the latest, the girl in an ordinary middle class family would have absorbed about 50 to 100 sovereigns in the least. This is strictly a provision, as these jewels could not be attached even for the husbands or the family debts. I have given a very low figure, and nowadays at the time of marriages even gold vessels are presented.

16 Western civilisation and western methods of thought and the spread of female education have brought with them the consciousness that some provision should be made for the female members of the household instead of leaving them to the mercies of the joint family and that they should have a decent competence. The result is that the sovereigns are being absorbed increasingly in tremendous quantities for the purpose of being melted for ornaments. The melting may take place immediately or after the girl is able to make a collection of sovereigns. Is it possible to satisfy this demand over a population of, say, at least 200 millions? People are wondering as to where all the gold goes. There is nothing surprising in its disappearance as sovereigns they are absorbed in fifties and hundreds in every household. There is no limit for the absorption. The jewels can be worn by Hindu women only so long as their husbands are alive and the Hindu women do not remarry. So, as soon as the husband dies, the jewels could not be worn and they are converted into purposes for which they are intended, viz they are sold and realised in money and then invested to bring in a decent interest for the women to live upon.

17 Personal credit is almost unknown in India. The banks do not lend money without any security. The Chetties and Marwaries who lend money to officials (European and Indian) charge a rate of interest that may appear to many as incredible. For a loan of 100 Rs the calculation is made thus: Interest at 3 per cent a month for 20 months comes to 60 Rs. The sum of 60 Rs is deducted and 40 Rs. is paid into the hands of the debtor and the amount in the bond is 100 Rs which should be paid in monthly instalments of Rs 5. This is an ordinary transaction taking place every day. Nothing less than 20 months is accepted. I know a number of Europeans, civil service men, men in the financial service and various departments, who have and are taking loans at these rates. For an Indian who has no Government post or who wants to avoid these men, the easiest way to raise money is by the pledging of his wife's or family's jewels.

18 Secondly, nearly 70 per cent of the population in India is mainly agricultural. The first instalment of the land tax, and in some parts two instalments are to be paid before the harvest begins, i.e. before the grain is ready for sale. Apart from the land tax there are various other demands arising out of the present conditions.

In almost all these cases raising a loan by the mortgage of immovable property is always avoided. The Presidency Banks and its branches do not lend money on the security of immovable property. The landholder does not like the publicity that attends the transaction in raising money in his own village. Even granting that he risks all these things there is delay—immoderate delay—arising out of the inspection of title deeds, registration of documents and getting the attestation of all the adult members of the family who may be in different parts of the country, and without such attestation the transaction will not be complete. Lastly the mortgagee will insist that the term should be at least for a period of three years. The money therefore cannot be paid back as soon as he has sold his grain. The only convenient, the popular and the cheapest, way of raising loans is by the pledging of jewels. The jewels may be taken to a different town, and the money is raised in half-an-hour without any registration or witnesses and the jewels may be redeemed at any time with a month's interest. The transaction may

be completed even by women without the presence of the adult members. The interest is cheap, there is the utmost secrecy in the transaction, and the money is raised immediately. The result of this is, whenever the agriculturist or the landowners gets a surplus, little or more, he invests it in jewels. It gives a status to his wife, proclaims her as a rich woman, there is peace and happiness at home, and lastly he is sure he can raise as much money as he wants at any moment. If his savings are not enough then he purchases as many sovereigns as possible and presents them to his wife and they are kept till they come up to the required number.

19 This tendency is seen not only in the above cases but also in others. Two of the biggest traders, one a leather merchant and another iron merchant, became insolvent recently. Every article belonging to the concern went into the hands of the Official Receiver. But the assets of the trader which could not go into the hands of the Receiver as exempt from attachment and the processes of the court were the jewels of his wife and daughters. In one case, 6 months after the insolvency the jewels of the wife of the Insolvent were valued at Rs 1,000,000.

Every trader, small or large, with purely honest motives, puts by at least a portion of his savings in the form of jewels. It may help him to raise money as easily as possible or if his business fails his family is well provided for. It is unnecessary to mention that some may consider it the best way of cheating a creditor.

These are the various forces that are in operation to-day and every sovereign which a family can get hold of goes into the melting pot or waits its turn to go to the melting pot.

20 The Honourable Mr Webb and a very large number of critics have not explained how the gold currency is to displace the silver and note circulation, even granting for a moment that every sovereign will strictly be used for currency purposes.

During the last 7 years the increase in circulation of rupees was 47 84 crores. As regards the notes the total circulation of notes in 1910-11 was 54½ crores, i.e. 469 lakhs in advance of the previous year and during the 7 years, a period during which sovereigns were legal tender, the increase in notes is calculated at 22 18 crores. Without doubling the circulation, how are the new coins to get into circulation? The gold will certainly not displace notes. In the banks and among individuals the payments are in notes, then in silver and in gold lastly if they are asked. The series of figures which I have with me as to the daily transactions of some of the banks show that 75 per cent of the payments are in notes and 20 per cent in silver and very little in gold. The gold payments are mostly to the Shroffs who sell sovereigns outside for bullion purposes.

The sovereigns may be used conveniently for payments of Rs 50 or Rs 100, but the following figures show that the notes are preferred even for these payments.

21 The following figures will show the very high increase of notes of larger denominations especially after 1899 when the sovereigns were made legal tender —

					Rs 50
1889-90 - - - - -					181,819
1899-00 - - - - -					233,159
1910-11 - - - - -					526,488

  

Years	100 Rs	500 Rs	1,000 Rs
1889-90 - - -	386,222	364,318	40,527
1899-00 - - -	748,793	53,285	62,039
1909-10 - - -	1,436,406	62,021	88,350

The increase in circulation in the case of Rs 50 and Rs 100 notes is about three times what it was 20 years back. If the sovereigns have to displace the notes it will be seen more in the circulation of Rs 50 and Rs 100 notes. But as yet there seems to be no trace of it.

22 The preference given to the currency notes by the large mass of population is very marked especially in the Mofussil. Just when the villager starts to a town on business, he changes the rupees into one note or two or three notes of Rs 100, keeping a very small amount of change in silver for his expenses. There is the secrecy in taking his money with him. There is no jingling of the coins, no suspicious knot in the dhoti, which may lead anyone to think that he is carrying any money. If the payment is to be made to anyone, the notes are handed over, and the change, if any, is received in small notes. The large grain merchants who receive payments in rupees, usually, before they go home, convert the mass of rupees into notes by paying a discount, and take the notes home. Apart from the question of convenience, the notes are preferred for safety. The numbers of the notes are usually noted inside the cover and a large class of the people know that they can easily trace the notes, and the money will not be lost.

It is this feeling—that money carried in notes can never be lost—that makes a very large number of people convert the silver into notes, whether they keep them at home or carry them with them.

Thirdly, notes are still used very largely for remittance purposes through post offices.

23 Fourthly, in the Madras Presidency when anyone hands a note of Rs 50 or above, to another for payment, he is asked to endorse his name on the back of it. Like a cheque, every currency note bears a number of endorsements, showing the successive holders of the note. In courts of law when payments are disputed, the number of the note and the endorsements offer a very successful defence of payment which it would be impossible to offer in other cases.

These, and various other reasons, will always make the notes more popular than silver or gold. It would be impossible for gold to displace notes, nor would it be sane economic procedure for any State to displace its paper by gold.

24 The next question to be considered is whether gold will displace the rupee coinage. A few years ago the Government tried to force sovereigns into circulation and the salaries of officials, clerks, &c, and postal money orders were partly paid in sovereigns. The measures had to be stopped for the simple reason that very few wanted the sovereigns. If they took sovereigns it was simply to change them the next moment. One Accountant-General who was in charge of a very large office told me that most of the officials refuse gold, and wanted their pay in silver and notes. However, this expedient could not be tried even for three months. As almost all the transactions have to be carried on with money of very small denominations rupees and fractions of a rupee are wanted.

Secondly, in the case of the rupee and sovereign in circulation, while the intrinsic and nominal values of the sovereign are the same, the nominal value of the rupee is nearly 30 per cent higher than its intrinsic value. It is almost an elementary proposition that in such case the rupees will be in circulation, while the sovereigns will disappear.

25 Thirdly, let us suppose on the other hand that 100,000,000*l* of silver are withdrawn from circulation and melted. Apart from the great loss that would result from such a transaction, the Government would be depriving the people of the only kind of currency that is suited to the needs and requirements of 70 per cent of the people. Silver coins will be at a very high premium, people will be willing to take 13 and 14 rupees for a sovereign, and certainly the rate of exchange can never be maintained at 15. Rupees will have to be coined again and the sovereigns will be exported or disappear.

Unfortunately, those who have suggested the opening of the mints and the introduction of a gold currency have not presented any working scheme as to how to get gold into circulation, and—a more difficult feat than that—how to retain it in circulation.

It has been stated that a sovereign is a coin of very large denomination, and as such, if a Rs 10 coin is minted, it will rapidly get into circulation. But it is forgotten that there is a much smaller coin than Rs. 10—I mean

the half-sovereign, which is legal tender, worth only Rs 7½, but of which there are very few coins in circulation. There is absolutely no demand for them, banks do not import them for that reason. If small coins would induce gold circulation, the half-sovereigns should be largely circulated. The fact is the demand for sovereigns being merely for use as bullion, the purchaser wants as big a coin as he can get, instead of half-sovereigns.

26 For the reasons above set out, I would advise a gold standard with a gold reserve. It is unnecessary to quote any authority, as, under the present conditions, it is the only system that would both be economical and would lead to very little disturbance in the exchange or in the prices under the present system. The term exchange standard has been wrongly used, and I would label the present system as a gold standard with a gold reserve. The only objection against it seems to be that it is not recognised as a system in any of the orthodox text-books. But new currency systems are bound to evolve according to the conditions and needs of a country, and there is no reason why there should not be progress in monetary science as there is in other branches of human knowledge. The reference to a large number of witnesses before the two previous Committees, who stated that there cannot be a gold standard without a gold currency, is of no value as the system was not understood or worked out in practice 15 years ago. Such opinions will be of as little value as the opinions of some of the greatest experts who stated that ironclad steamers could not float before steamers began to run, because it is against the laws of nature for iron to float.

27 Before concluding this part of the memorandum I may point out that many critics, including Mr Webb, have fallen into error in stating that the Currency Committee of 1898 recommended the re-opening of the mints immediately, and that the Government of India never followed the recommendations. This statement is being repeated very frequently by many who do not even seem to care to look into the report of the Currency Committee.

The report concludes with the statement that it will rest with the Government of India to decide when successive steps should be taken for the introduction of a gold standard. The measure must be one under which gold will flow freely to India generally as trade and currency requirements dictated, even if it took several years to introduce into the circulation sufficiently to make the standard fully effective would carry with it a confidence which could never be inspired by the sight of gold forced in by artificial means. It is a question on which there may be a very wide difference of opinion as to whether the time which the members of that Currency Committee anticipated has come, and whether the measures now proposed will not merely be forcing gold by artificial means. The Government of India seems to think that the gold coins have not established themselves in the currency, but are used towards a profitable employment as bullion.

Under such circumstances who can say that the recommendations of the previous Currency Committee have not been carried out?

28 It is also curious to note that at the budget meeting of the Viceregal Council, the Honourable Mr Gokhale (who is often quoted as one of the leading Indian publicists) states —

- (a) That a gold currency for India has never been authoritatively proposed as a definite object to be attained. A stable exchange at a reasonable rate is all that successive authorities have sought to ensure.
- (b) That it is wrong to pile up a huge gold reserve in pursuit of an object never proposed or defined, or even regarded as attainable within a measurable distance of time.
- (c) That it is looking too far ahead into the future to anticipate the introduction of a gold currency into India.†

The above statements will show how the recommendation of the Currency Committee was considered by one of the leading Indian publicists. Yet we are being told by Englishmen in India and in England that all the Indians are clamouring for a gold currency and the carrying out of the recommendation of the Currency Committee.

\* C 9390, page 21, para 70

† Financial Statement of the Government of India 1907-08, page 204 (H C 140 of 1907)

The fact is (to quote Professor Marshall) that India being governed by England, has necessarily had its affairs discussed largely by Englishmen who are apt to take their opinions of what goes on in India very much at second hand\*

29 *Paper Currency Reserve*—Under the present conditions it is unnecessary to have a reserve equal to the value of notes in circulation. It is wasteful and unnecessary. A certain ratio may be fixed between the amount of the reserve and that of the notes issued. The ratio to be fixed can be settled by banking practice. I would fix a ratio which is not more than half or less than one-third, the reserve to be metallic and consisting solely of sovereigns, half-sovereigns, rupees and bullion. The whole reserve is to be kept in India—there is absolutely no justification for keeping the reserve in England. I am of opinion that it would be better to have two-thirds of the reserve in silver, rupees and bullion.

The figures for 1911 are as follows—

Notes in circulation	Reserve
Value in Rupees	
54,99,05,815	9,27,97,267 gold in England
	7,56,75,000 gold in India
	2,00,00,000 gold securities
	26,14,33,602 silver
	9,99,99,946 silver securities
	<u>54,99,05,815</u>

30 Under the arrangements that I have proposed there is no discussion about keeping the reserve in England, or investing it in English securities, for the obvious reason there will not be large reserves. The whole metallic reserve will consist only of Rs 26,14,33,602, which is the amount kept as silver under the present conditions. The proposal I have made releases gold of nearly 20 crores of rupees in value which is locked up unnecessarily.

31 *The Gold Standard Reserve*—The management of the Gold Standard Reserve has been very severely criticised. The criticism is to a large extent due to a misapprehension as to the objects of the reserve. The Government of India ought to have defined its position by stating that the reserve is simply for maintaining exchange, and not for the purpose of ensuring the conversion of rupee token coinage into gold.

The Gold Standard Reserve has reached the high figure of 22,657,776<sup>l</sup>, and it is unnecessary to pile up the reserve more. Even the crisis of 1908, about which one has heard so much, which was international, was tided over by a very small amount. There is no necessity to keep a reserve over 20 millions. A portion of the reserve may be invested in sterling securities, as it may earn interest. The figures show that there has been a net profit on investments to the extent of 2 millions.

32 I have stated it as my opinion that the currency system best suited to India is a Gold Standard with a Gold Reserve. For the success of the Gold Standard the most important thing is the proper maintenance of the reserve. As I have defined the principal use of the reserve to be to steady exchange the reserve ought to be kept where it is wanted, *i e*, in London. Gold kept in India can never be effectively useful if it is urgently wanted in London. Apart from the expenses for freight, insurance, &c, the risk of loss or delay will prove fatal. There is nothing strange in this procedure while the gold reserves of Japan are kept in London.

33. The question of the location of the reserve is not new and it was discussed as early as 1898, and Mr A M Landsay in his evidence before the Currency Committee gave a number of reasons for locating it in London †

34 The profits of rupee coinage that may accrue hereafter may be utilised for getting silver for coinage. The scheme announced by Sir Edward Baker in his Budget speech (of 1907-8) of arresting at the third stage the rupees which form the profit in coinage and retaining them intact

\* Q.A. 11,770 Indian Currency Committee Report. C. 9222.

† Q.A. 4056. Indian Currency Committee Report. C. 9037.

until required for actual use may be useful.\* I would suggest that silver as bullion which is left as coinage profits may be retained in India for rupee coinage. This may be separated from the Gold Standard fund to avoid confusion and criticism, and kept separate for use. In course of time sufficient bullion will get accumulated for coinage.

*Diversion of the Gold Reserve Fund to Railways*

35 Sir James Mackay's Committee† was constituted in 1907 as there was a very strong and persistent agitation both in England and India that the existing arrangements for railway traffic was very inadequate. The President of the Bombay Chamber of Commerce speaking in 1907 said "At the present moment there is one bitter cry going up from all over India for waggons to carry the produce of the country. Now we hear of stations filled with cotton and no waggons to take it away, thousands of tons of manganese lying at the stations in the Central Provinces waiting for waggons which do not come. Indeed it is not necessary to refer to any particular trade as all are suffering alike"‡ It is difficult to estimate the loss this inability on the part of our railways to supply waggons means to firms and merchants. The Honourable Mr Apcar in his speech at the Viceregal Council (1907-8)‡ pointed out that the trading community looked with every confidence to means being devised to prevent for the future the retardation of railway progress, and stated that such retardation was not permitted either in England or in the United States or in our own colony of Canada, and in neither of these countries is the return of the capital so high.

36 The Government of India had to find money and the non-official members of the Viceregal Council who represented the Indian public opinion stated that the annual revenue surpluses should not be expended on railway construction. The Honourable Mr Gokhale suggested that the profits on rupee coinage may be devoted to purposes of railway construction. The Committee on Railway Finance (1907) in their Interim Report submitted in June 1907§ suggested that as there was then nearly 25,000,000*l.* sterling with the Government to be used for any emergency that may arise, that half of the profits of the rupee coinage to the extent of 1,000,000*l.* of one financial year may be expended on railways, as the matter was urgent. As I have stated above, this proposal had the support of the non-official members of the Viceregal Council, I may say the support of the Indian public opinion, and the Railway Committee also suggested it, and the amount spent was 1,000,000*l.* while there was 25,000,000*l.* sterling for all necessary purposes. The statement of the financial correspondent of the "London Times" that a committee sitting in London, light-heartedly suggested the misappropriation of Gold Standard fund was not correct.

37 One cannot understand whether the Government of India would have been well-advised to sit quiet and watch the general derangement of trade and the resulting catastrophe to Indian trade, both foreign and domestic, keeping 25,000,000*l.* sterling locked up in its coffers. Those who are shocked at an 8 per cent bank rate in India while there has been a large surplus in the hands of the Secretary of State, seem to have forgotten that the derangement of railway traffic was a much more serious injury to the whole of India than an 8 per cent bank rate.

38 There was no fund available for immediate expenditure as the revenue surpluses were not allowed to be touched and borrowing could not be resorted to every year.

39 Those who have objected to the diversion of the Gold Standard Reserve have suggested borrowing in London. But the amount that it can borrow is limited in various ways.

Firstly, in a railway crisis like that which happened in 1907, money could not be raised immediately in the London market.

Secondly, Indian loans are not very popular and it is not possible to raise large sums. The fact that the loans are raised and guaranteed by the State

\* See Financial Statement of the Government of India, pages 24-5 (H C 140 of 1907).

† See Report Cd 4111.

‡ See Financial Statement of the Government of India, pages 196-7 (H C 140 of 1907).

§ See Appendix V, pages 156-7.

no longer affords any inducement to invest in Government securities. The increase in the official class of foreign investments during the 20 years was only from 14,990,105*l* to 20,880,837*l* while in the non-official class the amount arose from 16,649,374*l* to 36,421,087*l*. In the former case the investments increased by only one-half, while in the non-official class the amount rose from 16,449,374*l* to 36,421,087*l*. In the former instance the increase was one-half, in the latter case double.

Under such circumstances it would have been impossible to borrow whenever there was any urgent need for capital requirements for railways.

Thirdly, the increase of sterling borrowing is against the recommendations of the Fowler Currency Committee. The Committee stated that for a speedy attainment of gold currency the restriction of gold obligations was necessary. Will not such a step be suicidal and make it impossible to attain a gold currency which the critics say is the only solution of all currency difficulties?

Lastly, as long as the money required for railway purposes has to be provided for by or through the credit of the Government of India, the supply of money depends on the Government's general financial situation at the time. The Government must regard its obligations as a whole, and in determining to what extent it allows its credit to be pledged in order to raise capital for railways, it must take account of its present and future requirements for other purposes, and the probable effect of the increase in its liabilities or its power to meet these requirements.

For these reasons, I am of opinion that the diversion of the fund in 1907 was absolutely necessary, and that it was a sound procedure.

#### *Cash Balances.*

40 Heavy cash balances in London are a phenomenon of recent years.

#### *Cash Balances in London*

	£
1906-07 - - - - -	5,606,812
1907-08 - - - - -	5,738,489
1908-09 - - - - -	8,453,715
1909-10 - - - - -	15,809,618
1910-11 - - - - -	18,174,349

Firstly, it is to be remembered that to a country whose annual revenue is about 86,985,300*l*, and whose expenditure comes to nearly 80,000,000*l*, a cash balance of 18,174,349*l*, where it is wanted for a variety of purposes is not very much. In a continent like India, the revenue purely depends upon climatic conditions. Not only the land revenue suffers by a bad season, but also the revenues under stamps, railways, &c. To a country dependent on climatic conditions for its revenue, with a population of 300,000,000 who look up to Government for relief when rains fail, whose export trade may be estimated at 180,000,000*l*, and import trade at 102,000,000*l*, with a sterling debt contracted in England of nearly 180,000,000*l*, on which the annual interest which India has to pay comes up to 6,000,000*l*, a cash balance of merely 18,000,000*l* is really a small sum, and I would say a dangerously small sum. Considering the large volume of trade and the magnitude of its transactions a sum of 18,000,000*l*. in England does not seem to be a very high figure. But even these high figures are due to a variety of causes which are temporary and abnormal, and they are as follows —

- (1) A series of good seasons with good harvests and with enough rainfall,
- (2) The opium windfall;
- (3) Large loans raised for railways still unexpended, temporarily in the hands of the Secretary of State,
- (4) The deposits of railway companies.

These have gone to swell the cash balances, and especially those in the hands of the Secretary of State. None of these conditions are permanent, and a series of bad seasons, and the extinction of opium revenue will leave Indian finance under a heavy deficit. The Government of India itself seems to have forgotten this fact when it is spending such large sums in education, sanitation, and other items.



41 These sums have not been extracted in excess of its requirements as can be seen from the following figures

42 In 1909-10, the total revenue of India was (excluding the opium receipts) 69,100,000*l*, and the expenditure, 73,100 000*l*. The growth of normal revenue in the four years 1909-13 has been 6,600,000*l*, and of expenditure, 6,200,000*l*, leaving a margin of 400,000*l*. This was the margin in a series of years when there had been bumper harvests, and increased taxation in 1910-11, which was estimated to yield 170 lakhs of rupees for the year. These figures will show how close the estimates are. The finance member in framing the budgets has got various uncertain factors to reckon with. He must count on the rains being timely, harvests fruitful, steady progress of industry and trade, the money market to be steady, and that famine, plague, and war, will not occur.

43 Among the causes for the recent large cash balances, the most important item is the windfall in the opium revenue about which no forecast or estimate can accurately be made. In February and March 1910, in response to the excitement in China markets, the Bengal opium sold for prices which was unprecedented for half a century. The prices rose higher, reaching the figure of Rs 3,827 a chest. The Chinese connoisseurs were ready to pay fanciful prices. The net result of these striking fluctuations were that the Government of India had to estimate for the average rate of Rs 2,925 compared with the Budget figure of Rs 1,750 a chest. In October 1911, the China drug rose to the phenomenal price of Rs 6,000 a chest, and the Government of India sold 15,440 Bengal chests, and exported 15,567½ chests with certificates for China, and 14,000 Bengal chests were sold for other markets.

44 The opium sale (2nd sale of the year and the 11th of the current official year) realised higher prices

January 1913	-	-	-	-	Rs 20,19,050
December 1912	-	-	-	-	Rs 17,39,350

This "restless and baffling" head of revenue so wholly exceptional in character, has led to the phenomenal cash balances, and, with the disappearance of opium revenue, there will be no heavy cash balances.

45 Another item which has also led to the swelling of these balances, is the large increase of sterling loans incurred for capital expenditure during recent years. These loans have been raised not on the occasions when they are wanted, but long before they are utilised to suit the conditions of London markets. The result is that these loans have to be in the hands of the Secretary of State, waiting their time to be utilised. Apart from these loans, large deposits are left by the railway companies.

If all these temporary balances are removed, there will be very little balances left in the hands of the Secretary of State available for the very large transactions which have to be carried on in London. It is a sound economic procedure if these sums can be made to earn interest while they are waiting to be utilised. No one can expect for sums that are lent out at one or two weeks' call, 4 or 5 per cent. It is absurd to say that money is being borrowed at 3½ to 5 per cent unnecessarily, to be lent out again at 2½ per cent.

46 There is, after all, not much money with the Government of India, to lend out to the Presidency Banks. The cash balances serve a number of purposes. They are the reservoirs from which all the capital expenditure is incurred, and all the advances to local authorities are made out of them. The deposits are all paid back from these funds, and the discharge of permanent, temporary, or unfunded debt is met from them. Lastly, the Council Bills which are sold so heavily, are drawn against these funds. When one considers the number of purposes to which the cash balances are put, and how largely the Provincial Governments also depended on these, I think that there is no figure which may be considered too high. It is also not possible to have these heavy cash balances always for the reasons I have given above.

APPENDIX XXIX.  
(With reference to Question 4,851)

STATEMENT showing IMPORTS and EXPORTS of GOLD from 1st April 1906 to 30th September 1910.

	Imports					Exports					Net Import of Gold
	Sovereigns and other British Gold Coins		Bullion		Total	Sovereigns and other British Gold Coins		Bullion		Total	
	Private	Government.	Private	Government		Private	Government	Private	Government		
	£	£	£	£	£	£	£	£	£	£	£
(a) 12 months before year of crisis (October 1907–September 1908)	7,610,000	40,000	8,331,000	—	15,981,000	11,000	—	2,002,000	—	2,013,000	13,968,000
(b) 12 months in which Exchange crisis occurred (October 1907–September 1908)	2,423,000	—	5,385,000	—	7,808,000	222,000	215,000*	2,291,000	25,000	2,753,000	5,055,000
(c) 12 months after crisis (October 1908– September 1909)	1,412,000	2,000	4,456,000	—	5,870,000	51,000	—	2,181,000	—	2,232,000	3,638,000
(d) 12 months later than (c) (October 1909–September 1910)	9,021,000	7,000	9,694,000	—	18,722,000	366,000	2,000	2,240,000	—	2,608,000	16,114,000

\* Light-weight sovereigns

ROYAL COMMISSION ON INDIAN FINANCE AND CURRENCY.

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**I N D E X**

TO

MINUTES OF EVIDENCE (VOL. I.)

AND TO THE

FIRST TWO VOLUMES OF APPENDICES.



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